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Modern Business

CANADIAN EDITION

A SERIES OF EIGHTEEN TEXTS, ESPECIALLY PREPARED FOR THE ALEXANDER HAMILTON INSTITUTE COURSE IN ACCOUNTS, FINANCE AND MANAGEMENT

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PART I: SELLING AND BUYING

CHAPTER I

FACTORS IN DISTRIBUTION

1. *Importance of problem of distribution.*—The problem of distribution must be solved by every successful business organization. In all industries the profits ultimately depend on the ability to sell goods advantageously. A factory may possess every facility for economical production, but unless the selling methods of the manufacturer are carefully designed to meet the peculiar requirements of the product and of the market, the business can not be conducted at a profit. In like manner, a non-manufacturing industry must finally look for its profits to the development of economical and suitable methods of marketing. The two great branches of merchandising—buying and selling—must receive at least equal attention in such an organization if it is to attain the maximum degree of profit-making efficiency. In any business, therefore, the proper development of the sales department and the satisfactory solution of the peculiar selling problems that it has to meet are vital to the success of the enterprise.

The problem of distribution is constantly becoming more difficult of solution. In former times trade channels were definitely established, and the manufacturer had little choice of selling methods. Each class of distributers occupied a fixed place in the chain of distribution, and there were but few attempts to open

new lines of contact between the producer and the market. Competition was not so keen as it is to-day. Fewer people, proportionately, were engaged in mercantile pursuits. The business acumen of former industrial leaders was devoted to the exploitation of new countries and new regions, rather than to the intensive development of a constantly narrowing market. The power of advertising as a great force in distribution was little appreciated, and it had scarcely begun to exercise its far-reaching influence on the long established traditions of marketing. Under these conditions, the problem of selling was a comparatively simple one. The manufacturer had but to adopt the usual methods, and there was little tendency to question the necessity or the value of the services rendered by the distributer.

To-day conditions are altered. There is little respect for traditional methods as such. Every producer and every distributer seeks the largest possible market at the least possible cost; and he consciously selects the methods that are best suited to his particular case, without regard to prevailing customs, unless expediency or their real value dictates a compliance with them. Intense competition makes it necessary for the man who has something to sell, to cultivate relatively unimportant markets that he would have disdained in the old days, and he finds in advertising an ally that makes it possible for him under certain circumstances to develop the selling methods that seem to be best suited to his individual requirements, whether those methods follow established usage or not.

The problem of selling has two phases: first, the determination of the market; second, the selection of methods for reaching the market. In the case of certain classes of distributers we shall find that their

market is determined for them because of the nature of their activities. Every seller, however, must meet the question of selling methods, and most of those who have anything to market must also definitely determine upon the field they are to cultivate.

2. *Traditional factors in distribution.*—For many years it was generally conceded that there were normally six factors to be considered in the distribution of most commodities. These factors were as follows:

Manufacturer
Commission merchant
Jobber
Wholesaler
Retailer
Consumer

At present, however, except in a comparatively few lines of business, the chain of distribution has been shortened. The commission merchant or broker remains an important factor chiefly in the various branches of the textile industry, and in the distribution of raw food products. The functions of the jobber and the wholesaler have largely lost their distinctive features, and the two words are practically interchangeable in business usage. As a consequence of this simplification of the typical chain of distribution, it is necessary to consider in detail the selling problems of only three classes of distributers—the manufacturer, the jobber, and the retailer. These, with the consumer, are the normal factors to be considered in any discussion of marketing problems and methods.

3. *Consumer.*—It is necessary to establish a definite meaning for the name of each of these classes, before we consider in detail the selling problems of each. A consumer, according to the Century Dictionary, is "one

who destroys the exchangeable value of a commodity by using it." In other words, he buys goods for consumption and not to sell them again. This definition is so simple that there ought to be no difficulty in deciding who is and who is not a consumer. There is, however, frequent difference of opinion on this point. For instance, the retail grocer may insist that a hotel or a restaurant is a consumer, and that, as a consumer, it should buy its supplies from the retail dealer instead of from the jobber. The wholesale grocer, on the other hand, may maintain that the hotel is in reality a dealer because it sells, although in altered form, most of the food that it buys. In general business usage, the term consumer means the "ultimate consumer"—the individual that uses the things he buys for himself and does not sell them again either in their original or altered form.

4. *Retailer.*—The term "retailer" is derived from two words meaning "to cut again." It was originally applied to a class of middlemen who purchased cloth by the piece or in quantities and then cut off smaller amounts for sale to consumers. Speaking generally, the modern retailer is a distributer who sells to the consumer, as distinguished from a distributer who sells to dealers. Of course, one distributer who would otherwise be classed as a retailer may sell, at times, to other dealers. When he does so, however, he must be classed as a jobber in those particular transactions, and not as a retailer. A retailer may also sell to manufacturers, as when a retailer hardware merchant, for example, sells supplies to a building contractor. This does not alter his classification. Any one who sells goods can be classed as a retailer when he does not sell to other dealers; and for practical purposes it is convenient and suf-

ficiently accurate to consider a retailer as a distributer who sells chiefly to consumers.

5. *Jobber.*—A jobber may be defined as one who buys, usually in quantities, for the purpose of selling the same goods again, without alteration, *to other dealers.* These dealers may be either other jobbers or retailers. But whenever one who is otherwise a jobber sells goods to a consumer, so far as that particular transaction is concerned he ceases to be a jobber and becomes a retailer. We have already suggested that there was formerly a clear distinction between the functions of the jobber and the wholesaler. The jobber bought "jobs"—odd lots at particularly favorable prices, and disposed of them sometimes to wholesalers and sometimes to retailers. The jobber usually had no regularly established market, while the wholesaler ordinarily supplied a more or less permanent list of customers. This distinction no longer exists. There is, however, even to-day, a slight difference in the meaning of the terms, which it is well at times to bear in mind. The jobber always *buys* the finished goods which he sells again to dealers. The wholesale dealer, on the other hand, may *manufacture* the goods which, when finished, he sells in quantities to the trade. A manufacturer who sells his product directly to retail dealers would more properly be classed as a manufacturing wholesaler than as a jobber. This distinction, however, is not generally recognized in the business world, and, as the selling problems of the jobber and the wholesaler are identical, it is permissible to use the terms interchangeably in a general consideration of selling methods.

6. *Manufacturer.*—For the purpose of considering problems of distribution, we shall use the word "manu-

facturer" to indicate a business unit that has charge of the combined activities of producing and of marketing goods. It includes those producers who manufacture from raw materials as well as those who purchase already manufactured articles and work them up into different forms or assemble them with other parts in the production of a larger or different article. For instance, each of the following types may be considered as a manufacturer:

1. The farmer who raises wheat and puts the raw product on the market.

2 The miller who purchases wheat and produces flour.

3. The baker who purchases flour and uses it in the manufacture of bread.

Any one who produces something and sells it is a manufacturer. So a publisher is a manufacturer; likewise the small, one-man, cigar factory; as well as a great concern like the American Tobacco Company. If, however, any producer solves the sales problem by making arrangements to dispose of his entire product to some individual or to some company that is to take the entire responsibility of marketing it, then the original producer need not be considered from the standpoint of selling. There are so-called sales companies that make a specialty of disposing of a manufacturer's entire output, and in certain branches of the textile industry commission houses contract to distribute the products of the mills. In these cases the manufacturer really has no problem of distribution, and the agency that handles the products in the open market has to meet the problems that the manufacturer would otherwise have to face.

7. *Semi-jobbers and manufacturing wholesalers.*—

In many cases a business house can not be classified exclusively as a manufacturer, a jobber, or a retailer. Its methods of distribution may permit its classification under two or even all three of these headings. If a manufacturer sells only to jobbers, he can not be classified otherwise than as a manufacturer. If he sells also to retailers, he is a wholesaler as well as a manufacturer; and if, in addition, he distributes his product directly to the consumer, he must also be considered as a retailer. A business house that sells to consumers as well as to dealers, is both a jobber and a retailer, or a "semi-jobber," as it is usually called. Of late years it has become customary for many wholesale houses to enter the manufacturing field for themselves. Such houses may be rightfully termed "manufacturing wholesalers," or even "manufacturing jobbers," although the latter phrase is not strictly accurate. We shall see later that this invasion of the field of the manufacturers by wholesale distributers has been productive of many serious complications in the problem of marketing methods.

It is our purpose to consider briefly some of the selling problems of the retailer, the jobber, and the manufacturer, and to suggest the more important advantages and disadvantages of the selling methods that are open to each class.

8. *Selling problem of retailers.*—We have already suggested that the problem of selling has two phases: first, the determination of the market; and second, the selection of methods for reaching that market. The retailer is not concerned with the first of these two phases. Because of his natural position in the system of distribution, he is not required to make a definite selection of the class to which he is to sell. As a retailer, he must sell chiefly to consumers. Or, expressing the idea dif-

ferently and perhaps more acurately, his market is confined to those who are not dealers in the things he has to sell. With his natural market determined for him by the terms of the definition of the class to which he belongs, he has only to consider the various methods of reaching that market, and to select the method or methods that best meet the requirements of his individual case. Normally, there are three ways of distributing goods at retail:

Salesmen or canvassers to call upon the consumer
Retail store
Mail-order method

9. *Retail selling by means of salesmen calling upon consumer.*—Before the development of town life, when people generally were able to supply their limited wants by direct barter with their neighbors, the itinerant merchant practically controlled such merchandising as existed outside of the comparatively few metropolitan centers. It is probable that there were traveling merchants before there were any towns at all, and this class of dealers can therefore be considered as the originators of the merchandising system. They went from tribe to to tribe, and later from town to town and even from country to country, displaying their wares before any possible purchaser they might chance to meet.

10. *Peddler.*—There are three modern prototypes of the itinerant merchant. The first of these is the peddler, who still supplies out-of-the-way communities with many of the necessities of life. The characteristic feature of his activities is that he carries his stock of goods with him, calls on those who may be interested in his wares, and makes immediate delivery of the goods that are purchased. This method of distribution, although useful and important in a primitive state of

society, is obviously unsuited to modern conditions, except in unusual cases. Its one advantage is that the customer can purchase at his own door. He is saved the necessity of doing anything except to pay the price and receive the goods. The business of an itinerant dealer, however, must always be conducted on a small scale. Unless operated in connection with some other method of distribution, it can never develop to any great extent, and, therefore, it can never seriously compete with other distributers who are able to effect the economies that are always incident to large-scale business.

11. *Canvasser.*—A second type of the modern itinerant merchant is the canvasser who solicits orders from house to house, but who does not carry his stock with him. The book-agent is an example of this type. Selling by means of personal solicitation of the consumer is expensive, and it can be attempted only when the article to be sold carries a large profit. This method of marketing is successfully employed when the article is so little known that its merits must be presented personally to each prospective purchaser, and when it is impossible or inexpedient to rely upon printed advertising to create a demand. A business of this sort need not necessarily be conducted on a small scale. There are some exceedingly prosperous business houses that have made a careful study of this method of distribution and have built up national organizations of house-to-house solicitors. Publishers of books and maps, and manufacturers of stereoscopes do an immense business of this sort chiefly in rural and semi-rural districts; and some mail-order houses, like the Larkin Company, for example, have used this method of selling successfully to supplement their catalogue business. Nevertheless, its possibilities are limited. There is a prejudice against

the house-to-house solicitor. His powers of salesmanship have so often been enlisted in the support of articles of questionable merit that the vendor with a strictly reputable proposition often finds his usefulness limited by the prejudice that exists against his selling methods.

12. *Specialty salesman.*—A third type of the dealer who takes his wares directly to the consumer may be termed a specialty salesman, for lack of a better name. The difference between him and the house-to-house solicitor is principally one of degree and not of method. Instead of calling upon everybody, he carefully selects his prospective customers and centers his attention upon them. This slight difference, however, is unimportant. It seems to be a far cry from the persistent solicitor for "Lives of the Presidents" to the highly paid commercial ambassador who secures a railroad's order for fifty thousand dollars worth of locomotives, but so far as their selection of trade channels and their fundamental selling methods are concerned, they must be placed in approximately the same classification. They both deal directly with the consumer, and they both ignore the retail store and the mail-order method of distribution. They both are modern prototypes of the ancient itinerant merchant. The one adopts this method of marketing because he believes that it is good policy to do so—the other, because the nature of his goods demands it.

A specialty salesman, in the sense in which we are using the term, usually handles a line that is of so technical or complicated a nature that it must be carefully explained to the consumer before he can be induced to purchase. An example of this class is the adding-machine salesman. He often has to prove to the prospective purchaser that an adding-machine is necessary in

the "prospect's" business, and then he has to prove that his particular machine is preferable to any other. The same is true of the life insurance solicitor. Sometimes an article that is originally introduced to consumers by specialty salemen becomes so well known that it is later handled profitably through the medium of regular retail stores. In some lines, however, the specialty salesmen are continued long after the article has become perfectly familiar to the public. This is usually the case when the demand is comparatively limited and the competition is severe. The typewriter business illustrates this condition.

In certain instances there is no other selling method possible than direct contact with consumers by the use of salesmen to solicit their business. Locomotives, obviously, could not be sold in a retail store or by mail. It is equally obvious that not much life insurance would be sold if every man who ought to carry insurance were left alone to discover his own need and to call at the office of the agent on his own initiative; although advertising can do much to supplement the work of the solicitor in this as in other fields. The insurance business, however, presents peculiarities that are not typical of ordinary merchandising. Speaking generally, very high-priced articles can probably be sold more successfully and economically by personal solicitation of the consumer than by any other method. In the case of low-priced articles, however, the method is undoubtedly expensive and appreciably increases the cost of the goods to the consumer. A dealer entering upon a business in which this selling method is customary would ordinarily have to adopt the same method to get his share of the trade. There are many business houses, however, employing only store salesmen assisted by effec-

tive advertising, who have competed successfully with other houses in the same line who relied solely upon their outside salesmen. Under normal conditions it would be a mistake to inaugurate an expensive system of local and traveling salesmen to sell goods to consumers if competitive conditions did not clearly demand it.

CHAPTER II

RETAIL SELLING AND MAIL ORDER BUSINESS

18. *Retail stores.*—The retail store is of almost equal historic importance with the itinerant merchant as a means of reaching the consumer. For many years after the development of town life and before the days of cheap and easy means of communication, the local shops practically controlled the distribution of goods at retail. Its advantages proved to be so remarkable that even the modern development of land and water transportation has scarcely affected its influence; and to-day certainly 90 per cent of such staples as groceries, clothing, drugs, dry-goods, etc., are still distributed through the retail store. In considering the advantages and disadvantages of this method of marketing, it is necessary to have in mind an establishment that confines its activities strictly to what is usually termed "over the counter" trade. It may, and it usually does, receive some orders by telephone, and it frequently delivers goods to customers. Its delivery clerks may call upon the regular customers and solicit their orders for the day, although this expensive custom is being supplanted by the increasing use of the telephone. Retail dealers in certain rural districts stock up wagons with salable merchandise and dispose of the load by making house-to-house calls upon the farmers in the neighborhood; and very many retail establishments combine selling by mail with the ordinary distribution through regular store channels. The typical retail store, however, does neither of

these things, and it is the typical retail store that we are now considering. This arbitrary limitation of the meaning of the term should be carefully borne in mind during the discussion of selling methods.

14. *Advantages of selling through a retail store.*—
1. The purchaser likes to see what he is buying. He can go to the store and actually pick out the article he is to get. He does not run the risk of dissatisfaction that is sometimes connected with ordering from sample or from a catalogue description. Or, if the customer does not visit the store, he can order by telephone and discuss goods and prices in detail with the dealer.

2. The store and the consumer's residence are usually comparatively close together. Delivery can be made without the delay that is frequently incident to the process of ordering from a distant distributer.

3. The store-keeper, particularly in a small town, is ordinarily on friendly terms with most of his customers. He can readily build up a clientele of personal friends and acquaintances whose good will is valuable. A long period of fair-dealing, of course, will also establish a good-will for the establishment that deals at long range with its customers, but the influence of a distant dealer upon his customers can never be so strong as that which the local merchant has upon his neighbors.

4. As the patronage of the retail store is generally limited and local, the owner is in a position readily to adapt his stock to local needs, and to hold trade by catering to individual and neighborhood peculiarities. A certain men's furnishing store in one of the small cities of the country maintains a careful card record of the peculiarities and tastes of each of its regular customers. When a man enters the store to buy a hat, he is immediately offered a hat of the same style that has ap-

pealed to him before; and when the dealer wants to dispose of an odd lot of shirts, he sends personal notices to his customers who wear the sizes that are included in the lot. No inducements of price elsewhere could permanently alienate the customers of this store.

5. In the case of error in filling the order, or dissatisfaction of any sort with the goods that are delivered, the adjustment can be made more quickly by the local store than by its distant competitor. "Satisfaction guaranteed, or money refunded" is becoming the slogan of a constantly increasing list of local retail establishments, and the store that adopts this policy has a strong hold upon its customers.

6. The local retail store is an important factor in the business life of the community. Its owner is usually a resident of the city in which it is located. Its force of employés is largely recruited from its immediate vicinity. Their prosperity depends upon its success, and they form a most effective force of personal advertisers. The owner can appeal to civic pride in urging support of home institutions against out-of-town competition. The civic consciousness of American communities is becoming a force to be reckoned with, and the local merchant can use this spirit to his own advantage.

7. The granting of credit to consumers usually requires familiarity with their economic condition. The local dealer can acquire this more easily than anyone else; accordingly, it is more customary for credit to be extended by local merchants than by mail-order houses. If the retail store-keeper does grant credit, he has a hold upon his trade that can not be secured by mail-order competitors who customarily do a strictly cash business.

15. *Disadvantages of selling through a retail store.*—1. Its field for development is necessarily limited.

The typical establishment that we are considering does no mail-order business, and it cannot, therefore, operate outside of its immediate neighborhood. After it has reached a certain point in its development, its further growth is limited strictly by the development of the district that is directly tributary to the locality in which it is situated.

2. Because of the local nature of its patronage, it is bound to be affected immediately by adverse local business conditions. A protracted strike or other serious industrial disturbance in the town is bound to affect severely the trade of every merchant in the community.

3. If it does a credit business, it must suffer loss through bad debts, and to that extent it is at a disadvantage with respect to its "spot-cash" mail-order competitors.

4. Its stock is usually purchased from a jobber or other middleman. Therefore, it can not always compete in prices with the distributer that has more direct buying connections. This does not mean that the mail-order house, because it is a mail-order house, can undersell the local retail store. Such a generalization would be unwarranted, although it is often made.

16. *Advantage in purchasing power.*—When a distributer buys goods to sell them again, his selling price is largely determined by two factors: first, the price at which he buys the goods, and, second, his cost of distribution. It is impossible to generalize about the relative advantages possessed by the local retail store and the mail-order house with respect to cost of distribution. Either of these classes of distributers may have lower selling and operating expenses than the other, in the sale of certain articles under certain conditions. If either has an inherent advantage over the other, therefor[e] it

must be with respect to its purchasing power. There is nothing in the nature of the mail-order house that gives it the power to command more direct buying connections than the local retail store can command. Normally, the retail dealer in staple lines buys from a jobber. Normally, also, the mail-order house that buys the same goods, in the same quantities, must likewise purchase from a jobber.

If traditional trade channels were as much respected now-a-days as they were only half a century ago, the discussion of this subject could end here. It is, however, coming more and more to be the case that the ability to command direct buying connections depends solely on the ability to buy in quantities. In other words, many manufacturers prefer to sell to jobbers, because the jobber usually can buy in larger quantities than the average retailer; but if the business of a retailer reaches such proportions that he can buy in as large quantities as the ordinary jobber, some manufacturers are often willing to sell directly to him and to allow him practically the same price that the jobbers have to pay. There are many retail establishments whose buying power is far greater than that of the average jobber; and thus, because of their immense distributing facilities, they are able to purchase a large list of articles directly from the manufacturers. It makes no difference whether they are local retail merchants or mail-order distributers—the ability to buy in quantities is frequently all that determines the price and secures for them direct buying connections.

17. *Size is most important.*—The general question, therefore, finally resolves itself into this: Which is the more likely to develop to such a size that it can command direct buying connections and the resultant lower

prices—a local retail establishment or a mail-order house? When the question is presented in this form, it can not be denied that the advantages lie with the mail-order house, when the conditions with respect to capital and managerial ability are equal and the article to be sold lends itself equally well to either method of distribution. This is true simply because the number of people who may be considered possible customers of the local retail store is necessarily limited, while the possible area of operations of the mail-order establishment is practically unlimited. If, therefore, a large mail-order house makes better prices than a small retail store, it is not because one is a mail-order house and the other is a retail store. It is chiefly because one is large and the other is small.

The small mail-order house (of which there are many) labors under the same selling disadvantages as the small retail store. The common custom of making the general statement that mail-order houses can usually undersell local retail stores is due to two things: first, the mistaken idea that all mail-order houses are large; and second, the fact that mail-order dealers ordinarily confine their operations to districts where they are not in direct competition with large retail establishments.

18. *Retail selling by mail.*—The most recently developed system of distribution of goods at retail is the mail-order method. The application of the mail-order principle during the past ten or twenty years has had an extraordinary growth. It has probably been the most important factor in the re-arrangement of selling methods and the altered attitude toward traditional trade-channels, which are characteristic of modern merchandising. Possibly its most marked influence is seen in the movement among a large number of manufacturers to

free themselves from dependence on the middleman and to add the functions of a retailer to their ordinary manufacturing activities. The jobber and the purely retail distributer, too, have found the mail-order method of selling immensely effective in increasing their area of influence and in developing new lines of contact with the consumer.

The remarkable growth in the mail-order business has been fostered by two important commercial developments—the cheapening and quickening of methods of communication and transportation, and the remarkable growth in the realization of the possibilities of advertising. To order anything by mail fifty years ago was to invite delay and dissatisfaction, and to solicit mail orders was to arouse suspicion and distrust. The dignifying of advertising and the achievements of steam and electricity have changed all this. To-day there is probably not an article of common or uncommon use whose purchase can not be effected by a customer a thousand miles away almost, if not quite, as satisfactorily as if it were bought directly over the counter of a retail store.

19. *Advantages of retail selling by the mail-order method.*—

1. Physically speaking, the field for development is practically unlimited. Operations can extend as far as the postal, telegraph, freight, and express systems reach.

2. As has been already suggested, the unlimited field for development makes it possible for the mail-order house to grow to larger proportions than the local retail store, whose customers must necessarily come from a narrowly defined area. Because increased size means increased buying power, the large mail-order house is sometimes able to make a better price to the consumer than the small local establishment can profitably meet.

3. Its wide area of operations frees the mail-order house from the influence of purely local conditions of business depression. Only a wide-spread industrial or financial difficulty can seriously affect its business. For example, if there were a prolonged strike of miners in the anthracite coal region, every retail store in Scranton and in the other towns of the district would suffer severely because of the decreased buying power of its customers. If there were a mail-order house in Scranton, however, that operated generally throughout the East, its trade in the anthracite region would probably be only a small part of its entire business, and decreased returns from that district would not seriously affect its total sales.

4. The only overhead charges of a mail-order house are usually incurred in the maintenance of offices and warehouses. Sample-rooms and sales-rooms are not needed.

5. Large stocks need not be carried. As a matter of fact, many articles listed in mail-order catalogues are not carried in stock at all. When orders for these articles are received, they are forwarded to the manufacturer and shipment is made directly from the factory to the customer. This is one of the greatest advantages of the mail-order method of distribution. The local retail store frequently ties up its capital in large quantities of slowly moving stock. It has to have on hand the goods for which there is likely to be any demand, and its customers are usually unwilling to wait until the dealer can order from his jobber the things that they want. When they order from a mail-order house, however, they expect some delay in delivery of the goods, and the mail-order dealer has opportunity to secure outside of his stock the articles ordered that he may not have on hand.

6. The cost of a selling organization is saved.

7. There is an element of chance about ordering from a mail-order house—a speculative interest in the value to be received—which seems to attract trade. A consumer may see an article many times in his local store without becoming interested in it; while the same article offered for sale in a mail-order catalogue or advertised attractively in some publication may arouse in him a desire for its acquisition. The appearance of the actual article may not be so effective in arousing interest as a picture of it coupled with an alluring description.

8. The catalogue of the mail-order dealer represents his entire stock. This catalogue is always accessible in the home of the consumer. It is a more simple matter to turn its pages than it is to gain a knowledge of the complete stock of a store by personal inspection. The mail-order purchaser, therefore, is likely to order a larger assortment of merchandise than the "over-the-counter" customer. The consumer wishes, perhaps, to order a single article. He looks up prices and grades in the mail-order catalogue. While doing so he involuntarily sees advertisements of other articles that may interest him, with the result that his order usually includes a greater assortment than he at first intended ordering. The mail-order house would not have this advantage if all retail clerks were real salesmen. Too frequently they merely supply the customer's expressed requirements, and make no effort to interest him in anything except what he asks for. The retail store clerk should take a lesson from the jobber's traveling salesman who usually canvasses the retailer's entire stock before he is convinced that he has secured the largest possible order.

9. The mail-order business, with few exceptions, is conducted on a strictly "cash in advance" or "cash on

delivery" basis. Customers do not expect credit and do not ask for it. The mail-order dealer, therefore, avoids bad debts, and, to this extent, has an advantage over his local, credit-granting competitor.

20. *Disadvantages of retail selling by the mail-order method.*—1. Advertising is the life of the mail-order business. Heavy expenditures for publicity are absolutely necessary. In many cases these expenses make the cost of selling by mail fully as great as the cost of other methods of distribution.

2. The mail-order house must combat the active antagonism of the local merchants in the entire territory in which it operates. It must do this, chiefly, by lower prices, superior goods, and efficient service. It is hampered on all sides by the organized opposition of local and national associations of retailers and wholesalers. The influence of these organizations is often sufficient to secure the enactment of legislation directed against the mail-order houses. Not only must they meet the competition of other concerns employing similar selling methods, but they must also fight their way constantly against the powerful opposition of influential organized forces that are determined to place every possible obstacle in the way of the development of the mail-order principle.

3. It is difficult to build up a clientele of steady, loyal customers of the house. This can be accomplished only after a long period of fair-dealing with the customers. The local retail store has the advantage in this matter.

4. It is often maintained that the development of the mail-order business in this country has been hindered by high cost of transportation of packages that are too small to be sent economically by freight. This opens up the whole question of the parcels post and of the

regulation of express rates. Many retail and jobbing interests maintain that a lower cost of transporting small packages will work solely to the advantage of the mail-order concerns and will increase the competitive difficulties of the local retail stores. Other business interests urge that the local establishments will be as greatly benefited as the great central mail-order houses, because it will then be possible for the retail stores to increase their own field of operations by developing mail-order departments of their own. Whether or not cheaper and easier means of parcel transportation will be of greater advantage to the present mail-order houses than it will be to the present retail stores, the fact remains that it will probably result in a more general application of the mail-order principle.

21. *Combinations of retail selling methods.*—We have seen that there are three standard ways of selling goods at retail: by salesmen to call upon consumers, by the retail store, and by the mail-order method. The advantages and disadvantages of each method have been briefly discussed. Every dealer who wishes to sell at retail must make a definite selection of one or more of these methods of distribution. His choice is by no means limited to one. As a matter of fact, the most successful retail establishments are those that utilize more than one means of reaching the consumer. Some retail dealers maintain store rooms and also send out solicitors to call upon consumers and to induce them to visit the store. Pianos are frequently sold in this way.

A particularly effective combination of retail selling methods is that of the retail store with the mail-order business. Marshall Field & Company, of Chicago, and John Wanamaker, of New York, are two well-known

examples of the effectiveness of this combination. They originally dealt only "over the counter," but their mail-order business has developed gradually until it has now reached enormous proportions.

It is not alone the retail store in the great central market, however, that can successfully utilize this combination. In countless smaller centers throughout the country, progressive merchants have realized the possibilities of mail-order distribution and have greatly widened their circle of influence by developing a catalogue business. They have recognized that there is no method so effective in meeting the competition of the great central mail-order distributers as to enter the mail-order field for themselves. The advantages of doing business by mail are particularly marked when this method is utilized in connection with an established retail store. Very few retail establishments are doing the maximum business which their plant and force of employés could handle. Under such conditions, a mail-order business could be started with very little, if any, additional expense. Even if some additional facilities or employés were made necessary, the increased expense incident to the growth of a mail-order business would often not be so large as the increase in expenses occasioned by an equal growth in the "over the counter" trade. One very great advantage of the retail store that extends its field by developing a mail-order department is the fact that the clientele of satisfied customers possessed by any successful retail store is a valuable advertising asset for the mail-order part of the business. One department helps the sales of the other.

CHAPTER III

SELLING AT WHOLESALE

22. *Selling problem of jobber.*—We have seen that the retailer is concerned with only one of the two phases of the selling problem. He does not have to select his market. Because he is a retailer, he must sell to consumers. His sole concern is with the methods by which he can reach his market. The same is true of the jobber. As a jobber, his activities are confined to selling to those who purchase in order to sell again. If he does sell to the consumer—in other words, if he does both a wholesale and a retail business—his problem as a retailer is exactly that of the man who sells only at retail.

The dealer who sells both to dealers and to consumers is usually called a semi-jobber. There are many successful houses that conduct a dual business of this character; but ordinarily it is inexpedient for a distributer to attempt to sell the same line to dealers and to consumers in the same locality. When such an attempt is made, it is obvious that the semi-jobber must be prepared to meet the particularly active competition and antagonism of the exclusively retail dealers in the district in which he operates as a retailer. The strictly retail stores always strenuously resent the invasion of their field by one who is doing also a jobbing business. If there is one wholesale grocery in a city, for example, the retail grocers of that city normally give it their support, because of the convenience of being able to replenish their stocks at short notice. If the wholesale house

begins to sell at retail, however, either surreptitiously or openly—in other words, if it strives to compete with its own customers—it will have difficulty in retaining the patronage of the retail grocers of the city.

There are some branches of merchandising in which trade lines are not very sharply drawn, and semi-jobbers in these goods frequently flourish and are able to build up a profitable retail and wholesale trade in the same district. In such staple lines as groceries, dry-goods, drugs, and hardware, however, when semi-jobbers have achieved great success, it has been mainly in those cases in which the wholesale trade of the dealer is with merchants located outside of the city where he conducts his retail business.

23. *Two methods of wholesale selling.*—The typical method of carrying on the strictly wholesale activities of the jobber is by means of salesmen who call upon the retail trade. The use of traveling representatives of a wholesale house is probably as old an institution as the wholesale house itself. There are some branches of the jobbing trade, however, in which traveling salesmen have not always been an important factor. Even to-day it is the custom for buyers of some lines of goods to make periodical visits to the central markets and to order only after personal inspection of the jobbers' stocks. Formerly this custom was much more general than it is at the present time. Now it is confined chiefly to lines in which the idea of style plays an important part. Buyers of clothing, millinery, and similar goods usually make frequent trips to style centers—New York, Chicago, and the European capitals, for example—in order to be sure that their purchases will be according to the prevailing mode. Jobbers in these lines in the trade centers, therefore, are chiefly concerned with the

problem of encouraging the visits of customers to their establishments. They must maintain an adequate house selling force. Even in these cases, the employment of a certain number of traveling salesmen is usually essential. The duty of the traveling representatives is to solicit the trade of those dealers who do not come to the city to buy, as well as to encourage the visits of those who do.

Most wholesale selling is done by local or traveling salesmen. The competition in jobbing channels is extremely severe, and it is generally considered that the house that does not go out after the business with competent representatives can not compete with the house that does. In opposition to this general contention, however, there are some examples of marked success in wholesaling, which has been achieved simply by advertising in periodicals and by the judicious use of catalogues and circulars. Accordingly, two possible methods of distributing goods at wholesale must be considered—by salesmen and by mail. Some of the exclusive advantages of each of these two methods of wholesale selling are listed below.

24. *Wholesale selling by salesmen.*—1. The jobber can develop a personal, friendly relation with the trade through his representatives. The effect of this is similar to the effect of the personal relation that the retail dealer often sustains to his customers. A purchaser, whether he is a consumer or a retail dealer, usually places his order where he can get the best service and the most satisfactory goods at the lowest price; but when two or more houses offer him approximately the same terms, the same price and quality, and the same service, his personal relations with the sellers or with the representatives of the sellers is frequently the determin-

ing factor in the placing of his order. Personality is to-day almost if not quite as strong a factor in salesmanship as it ever was.

2. The salesman can give his employer information regarding the credit of his customers which may be of financial benefit to the house. He can also be of material assistance in the matter of collections. When a customer through willfulness or carelessness is slow in meeting his obligations, it is sometimes difficult to effect a settlement by correspondence without losing the future trade of the delinquent customer. This can often be accomplished more easily by the personal visit of a tactful representative.

3. A salesman can usually secure a larger order from a retailer than the dealer would ordinarily send in by mail if he were ordering only from a catalogue. We have seen that the reverse of this is true in the case of the sale of goods at retail. The retail clerk is not trained to draw the customer's attention to everything of possible interest in the stock of the store, and the customer would not give him the time to do so even if the clerk had the training and ability. The efficient jobbers' salesman, however, does not leave a dealer until he has canvassed the entire stock, so far as his line is concerned. He is not satisfied with an order until he is sure that it contains all the items that the dealer can wisely purchase.

4. The salesman is frequently better acquainted with general merchandising conditions than are the dealers to whom he sells. For that reason he is often in a position to assist his trade by giving valuable suggestions regarding the stock to be purchased and the methods to make it move. Particularly in the smaller towns of the country the dealers are accustomed to rely greatly

upon the traveling salesmen for information about styles and fashions and novelties. If a salesman has demonstrated his trustworthiness in this respect, many of his customers rely upon his judgment to a remarkable degree. It is true that a mail-order jobber can develop this same confidence, and he can be of similar service to his customers, but he can not do so as quickly or as effectively as the jobber that sells through salesmen.

5. Most wholesale selling is done by means of samples that are carried by the salesmen. The mail-order jobber must make sales by the attractiveness of the pictured and printed descriptions of his goods.

6. Few jobbers do extensive advertising. At the present time it is not generally considered necessary if the territory is well covered by traveling salesmen.

25. *Wholesale selling by mail.*—1. A large sales organization is not required.

2. A jobber's salesman frequently acquires so strong a personal influence with his customers that he can carry the trade of some of them to any house with which he may become connected. In this way, a jobber who sells through salesmen runs the risk of losing some of his customers whenever a salesman for any reason leaves his employ. The mail-order jobber avoids this risk.

3. The supervision that a jobber can exercise over his salesmen is necessarily limited. Their statements and selling methods may be such at times as to reflect discredit upon the employer. The catalogue and correspondence of the mail-order jobber are his only representatives. He risks the reputation of his house only to those who are under his direct supervision.

4. Unless the mail-order jobber's advertising ex-

pense is equal to the cost of maintaining a force of salesmen, he should be able to make lower prices than the jobber who sells through salesmen. It is as dangerous to generalize on this point as it is to make general statements about the relative selling expenses of a local retail store and a retail mail-order distributer. The articles sold, the location of the dealer, conditions in the trade, and many other factors must determine this matter in each individual case.

26. *Combination of wholesale selling methods.*—Comparatively few jobbers employ either of these methods of distribution exclusively. There are highly successful houses that employ no salesmen at all, but there are very few that employ salesmen that do not also issue catalogues, and encourage their customers to order by mail. Many jobbers are beginning to advertise in periodicals and to send out elaborate circulars and announcements. The desire to utilize every possible method of contact with their customers has induced some wholesale dealers to publish "house organs" which carry their advertising, and, in addition, contain so much matter of general interest that they may be classed as valuable additions to periodical business literature. Competition is keen in the jobbing field, and, with a few exceptions, the greatest success is won by those who use both salesmen and the mails to solicit orders. This combination of the two methods of wholesale selling is particularly advantageous in the case of those jobbers whose selling costs are high by reason of a large territory and widely scattered customers.

CHAPTER IV

PROBLEMS OF MANUFACTURER

27. *Manufacturers' selling methods.*—We have seen that the retailer and the jobber are concerned with only one of the two general phases of the problem of distribution. They are not called upon to select the class of customers to whom they are to sell their goods, because the meaning of the terms, retailer and jobber, determines for them the general nature of their activities. The retailer sells to consumers and the jobber sells to dealers. These two classes of distributers have to consider only the best methods of reaching their natural market. The manufacturer, on the other hand, has a more complex selling problem to solve. He must first decide to what class or classes he is to sell his product, and he must then select the best means of reaching the market that he has chosen.

28. *First problem of the manufacturer.*—Generally speaking, the manufacturer's first selling problem is to determine whether he will sell his product to the jobber, to the retailer, or to the consumer. Shall he confine his direct sales to one of these classes exclusively, or will it be advantageous to place his goods directly with two or all of them? The problem is an important one, because on its solution depends, first, the selection of economical methods of marketing the product, and, second, the attitude of the wholesale and retail trade toward the manufacturer, and the degree to which their coöperation can be secured in the distribution of his

goods. As a matter of fact, however, the small manufacturer frequently does not feel the necessity of solving this problem. He may, for example, devote his chief energies to securing orders from the retail trade, and yet he may willingly accept orders from jobbers and consumers as well. This may be due to a definite and known policy of dealing directly with any one who wants his goods, but it is more often due to the lack of a definite policy in this regard. The small manufacturer's goods may be relatively of little importance in the general market. When this is the case, retailers and jobbers may not be sufficiently interested in them to develop either a friendly or an antagonistic feeling toward them on account of the selling methods of the manufacturer. The problem of making a definite selection of a market, however, is a vital one with the producer who is selling a well-known article over a wide territory. Every manufacturer who hopes to develop a sectional or a national distribution, no matter how small his present business may be, should realize that an early and satisfactory solution of this problem will be a valuable asset, when his product becomes standard and of sufficient importance in the trade to merit the definite support or antagonism of distributers.

29. *Factors in solution of first problem.*—There are several considerations that may influence a manufacturer in the selection of the immediate market for his goods. Chief among them are the two following:

1. The nature of the product itself. For instance, its form, size, bulk, price, or use.

2. Trade conditions and considerations of policy or expediency that are not based on the physical characteristics of the product.

The application of these two classes of considerations

is best indicated by concrete illustrations. The two examples that follow illustrate the effect of the nature of the product on the selling methods of the producer.

30. *Nature of the product.*—The dressed-meat industry requires modern refrigerating facilities at local distributing points. When the central packing-houses began to extend their territories, these local refrigerating facilities were not to be found. Accordingly the packers established their own warehouses and offices at convenient shipping points throughout the country. From these branch-houses, sales and deliveries are made directly to the retailer.

An adding machine is so complicated a piece of mechanism and its many uses are as yet so little known to the general public, that it would be inadvisable for the manufacturers to depend for its distribution on jobbers and retailers of office supplies. These dealers could not give it the special attention necessary to enable them to learn and present its many selling points. The manufacturers must endeavor to educate the public directly about the use and value of the machine. Accordingly, the producers usually sell directly to the consumer either through branch houses and their own salesmen, or through agents who are closely connected with the manufacturing companies.

These two examples illustrate the effect of the nature of the product on the manufacturer's selection of the class to which he is to sell his products. The consideration of business policy or expediency in the solution of the problem is illustrated by the following cases.

31. *Business policy or expediency.*—The jobber is an important factor in the grocery trade; probably 90 per cent of the groceries consumed in this country are distributed through the wholesale grocer. His in-

fluence, therefore, is great, and his coöperation valuable. The largest laundry soap factory in the United States has for many years refused to sell its products directly to any one not conducting a strictly wholesale business. It is true that the manufacturer's salesmen solicit orders from retailers, but these orders are always taken for the account of some jobber; and even when the shipment is large enough to be made directly from the factory to the retailer, the wholesale grocer named by the retailer secures his full jobbing profit on the transaction. This system of selling is typical of the attitude of many manufacturers who seek the active coöperation of the jobbers by recognizing them as legitimate factors in distribution. In return for their loyalty to the wholesale dealer, the manufacturers ask that the jobber push their goods instead of those of other producers who may sell directly to retailers or even to consumers.

The iron and steel companies have largely ceased selling to middlemen, because the dealers began quoting prices for future delivery that were lower than the producers themselves could quote. This caused attempts at speculative manipulation of prices, which were demoralizing, and forced the manufacturers to keep control of prices by selling directly to consumers.

It has already been suggested that some manufacturers do not find it necessary to confine their direct sales to the jobber, the retailer, or the consumer. The small manufacturing organization that has to secure an immediate distribution, without much regard for the effect of its selling policy on its later development, is frequently willing to sell its goods directly to both classes of distributers and to consumers as well. It may sell to consumers at a maximum price. From this figure it may allow one discount to the retailer and a still larger

discount to the jobber. It has been explained in a preceding paragraph that, for a comparatively small factory, and even for a larger one in some lines of business, this policy is entirely proper and is the only one that can be pursued to advantage. The large organizations that have adopted this method of distribution, however, are chiefly those engaged in industries in which trade lines have never been strictly drawn. The publishing business is a case in point. Some publishers sell to wholesale book dealers; they also sell directly to retail stores through their own salesmen; and they sell directly to consumers by means of house-to-house solicitors. In his turn, the jobber to whom the publisher sells, may also sell directly both to the retail trade and to consumers as well. This situation is by no means universal in the book business, but it is typical of the condition that might exist in all lines if manufacturers in general did not recognize the customary trade channels.

In some lines, it is highly desirable for the manufacturer to select one of the three possible classes of customers that we have been considering, and to confine his direct sales strictly to that class. The branches of business in which this policy is most advisable are those in which the jobber plays an important part, such, for example, as the great staple lines of groceries, dry goods, hardware, and drugs. Some of the advantages and disadvantages of the various means of distribution open to manufacturers in these and similar fields are as follows:

32. *Advantages of making direct sales only to jobbers.*—1. The manufacturer recognizes the jobber as a legitimate factor in distribution, and refuses to compete with him by selling to retailers or consumers. Accordingly, the manufacturer can expect the active support of the jobber's selling organization in the distribution

of his product. It is to the jobber's advantage t
push the goods of the manufacturer who adopts thi
policy.

2. Because the manufacturer can expect the jobbe
to sell his goods for him, and to take an active interest i
them, the manufacturer does not need to maintain a
large selling organization.

3. The manufacturer's accounting and order systems are much simplified. If, for instance, he is doing a national business in a grocery specialty, he has accounts merely with the 2,500 or 3,000 wholesale grocers, instead of with the quarter of a million retail grocers in the United States.

33. *Disadvantages of making direct sales only to jobbers.*—1. The manufacturer can not follow the distribution of his goods beyond the jobber's stock. Many jobbers operate over an extensive territory. Therefore, the manufacturer can not learn definitely where his goods go finally into consumption. If he advertises in order to interest the consumer and retailer, he can not determine definitely the effect of the advertising in any particular locality. He does not know accurately the extent to which demand is increasing or decreasing in any given section, and his efforts to stimulate business by local advertising, therefore, can not be accurately directed.

2. There are many manufacturers that support the jobber by selling directly only to him. He is supposed to give equal support to all of them in return. He may push one manufacturer's products for a period, and then discard them for a different line. This prospect need not be feared if the quality of the goods has been sufficiently impressed upon the public to have built up a steady demand for them; but the possibility is one that

must certainly be considered by the manufacturer whose products are little known.

3. Many jobbers' salesmen are paid on a commission basis. Their compensation is based on the amount of profit that can be figured on the goods they sell. Accordingly they will sell mainly the goods that pay the largest profit, no matter how willing the jobber may be to return the support of the loyal manufacturers. If their goods do not pay as good a profit as other lines, he can not force his salesmen to sacrifice their own immediate financial interests.

34. *Advantages of making direct sales only to retailers.*—1. Goods sold to a retailer can generally be considered as being consumed in or near the retailer's town. Hence the manufacturer can determine accurately the growth or loss in business at any point, and he can direct his advertising accordingly. The manufacturer who sells to the retailer is in a better position to judge and to influence demand than is the manufacturer who sells only to the jobber.

2. The retailer who is a real merchant can often sell whatever he wants to sell, without too much regard for popular demand. This statement is subject to frequent exceptions, but it applies in many cases. If a manufacturer sells to retailers, his salesmen must call upon the dealers frequently. A manufacturer's salesmen are trained to secure the dealer's coöperation; their one purpose is to enlist his support for the particular line they are handling. The jobber's salesmen, on the other hand, are often asked to give their attention to so many lines that it is impossible for them adequately to press the advantages of any particular one.

3. An increasing number of large retailers refuse to purchase through a jobber. Their support is usually

valuable, and it can be gained only by direct selling

35. *Disadvantages of making direct sales only to re-tailers.*—1. If the jobbers can not have the exclusiv sale of an article, they naturally work against it and dis-courage its purchase by retailers. In many instance the jobber exercises a strong influence over the retailer and in such cases the jobber's support, even though i may be passive, is to be preferred to his active antag-onism.

2. Selling directly to retailers necessitates the main-tenance of an extensive selling organization. The trade must be covered frequently enough to neutralize, as far as possible, the effect of the jobbers' salesmen's activity in behalf of other lines.

3. The accounts carried are many. If credit is granted, the system must be extensive, and the accounts must have close watching. The financial condition of many retailers is not strong, and bad debts are likely to be more frequent than when direct sales are confined to wholesale houses.

36. *Advantages of making direct sales only to con-sumers.*—1. The manufacturer can determine accu-rately the response to his advertising in any given district. He has an absolute check on variations in de-mand, and can apply the needed stimulus to the business exactly where it may be needed.

2. The manufacturer can retain control of the market. In other words, he can make prices and estab-lish a "good will" without danger of the prices being cut by dealers, and the "good will" being impaired by the unauthorized action of some irresponsible middle-man.

37. *Disadvantages of making direct sales only to con-sumers.*—1. As soon as a "direct to consumer" business

becomes large enough to be a strong competitor of wholesale and retail dealers, it is made the object of concerted attack by the interests with which it competes. Sometimes the influence of the dealers is strong enough to result in legislative action adverse to the manufacturer.

2. If the consumers are reached by salesmen, the cost of the necessary selling organization must be very great. The same thing is true of the advertising expense if the business is of the mail-order variety.

3. A "direct to consumer" business conducted on a credit basis involves a complicated system of accounts, and the risk of loss through bad debts is in proportion to the number of accounts carried. If it is conducted on a cash basis, it loses the trade of the large number of people whose patronage the local dealer holds by granting them credit.

38. *Second selling problem of manufacturer.*—We have suggested some of the advantages and disadvantages of the possible solutions of the first phase of the manufacturer's selling problem. After he has determined whether he is to sell to the jobber, the retailer, or the consumer, or to any two or to all of them, he must choose methods of reaching the market that he has selected. If he is to sell to jobbers, he may do so either through salesmen or by mail. The mail-order method of selling to jobbers, however, is so little used that its advantages as compared with those of the method of selling through salesmen need not be considered in detail. Ordinarily the manufacturer who seeks to enlist the co-operation of the jobber must do so by personal solicitation. If a manufacturer sells to the retailer, the selling methods that are open to him are exactly the same as those that are open to the jobber; and if he sells

to the consumer, he can make his choice of the same methods of distribution that are open to any one who seeks to sell goods at retail. The advantages and disadvantages of the various possible methods of wholesale and retail distribution have already been considered.

39. *Declining importance of middleman.*—Recent years have witnessed many changes in manufacturers' selling methods. The number of manufacturers who are leaving the middleman entirely out of their schemes of distribution is constantly increasing. The wonderful development of modern advertising has made it possible for the manufacturer to talk directly to the people who use his goods, and highly successful "factory-to-consumer" enterprises are to be found in nearly every line of industry. As marked as this movement is, however, it is not more important than the increasing tendency on the part of manufacturers to recognize the retailer as a legitimate distributer, but to eliminate one of the other traditional factors in distribution from their system of selling. In order to strengthen their own position and to meet, in some degree, the general complaint against high prices that are frequently attributed to the handling of the necessaries of life by superfluous middlemen, many manufacturers have abandoned the policy of relying exclusively upon the wholesale merchant for the distribution of their products. They are seeking more and more to find a direct market among the retail trade. The declining importance of the jobber may be traced, in part, to the following causes:

1. The growth of publicity and the complexity of advertising campaigns have made it necessary for the manufacturer to have an accurate check on the effect of his advertising, and to be sure that the work is followed up by the necessary selling activities. Neither

of these things is possible when the manufacturer sells only to the jobber. The manufacturer who employs salesmen to solicit retailers' orders to be filled for the account of jobbers, is, of course, able to follow up local advertising effectively. Even he, however, is at a great disadvantage in checking up the actual effectiveness of his publicity.

2. The larger scale on which business is being done—the increased investment of capital—has inclined the manufacturer to seek the closest possible connection with the consumer. Unless a product is in general demand, there are uncertainties involved in marketing it entirely through jobbing channels. Manufacturers are frequently unwilling to risk these uncertainties despite the many advantages that are offered by distribution through the wholesale trade.

3. The increasing purchasing power of retailers is an important factor in the changing status of the jobber. Many manufacturers have no interest in the maintenance of trade lines. If they sell only to jobbers, it is simply because they do not care to deal in the small quantities that the retailer often wishes to buy. If the retail trade, however, develops sufficient buying power, it is an enticing market for the manufacturer who is willing to sell to any one who can handle the required quantity of his product. There are a great many retailers whose purchasing power is much larger than that of the average jobber. Frequently they will not purchase from a jobber; and if their trade is to be secured, they must be sold directly.

40. *Jobber's place in merchandising system.*—Despite the tendencies that are responsible for the lessening importance of the jobber, it is improbable that he will ever be eliminated from the merchandising system.

He occupies a definite and important place. Without the jobber the small neighborhood retail store could not exist. Consider, for example, a typical grocery store. Its stock may include from a few hundred to several thousand different articles, which are probably produced by hundreds of manufacturers. Except in the quick-selling staple lines, it has on its shelves only a small supply of each article. Let us imagine that there is no jobber from whom the stock can be purchased, and that the retailer has to buy everything from the manufacturers.

In the first place, he would have to deal with as many manufacturers as there are different lines in his stock. It is easy to imagine the difficulty the average dealer would have in keeping complete assortments in stock under these conditions.

In the second place, he would have to purchase each article in much larger quantities than he does from the jobber. Few manufacturers would care to sell him a half case of extra quality canned goods or a dozen bottles of olive oil. The increased size of his stock would make it necessary for him to have a warehouse, which means additional expense; it would require heavier total purchases than the average dealer's capital would permit; and, even if his capital was sufficient, it would mean tying up a considerable portion of it in a large amount of slowly moving merchandise.

The average dealer could not do a profitable business under these conditions. As conditions actually are, however, the retailer can make almost all of his purchases from one jobber; there can be and frequently is a cordial understanding amounting to more than a mere buying and selling relation between retailer and jobber, which is of advantage to both in their credit relations; the retailer can usually buy as much or as little as he

pleases; and he can renew any portion of his stock on short notice. Furthermore, the jobber's salesman calls frequently on his customers; he can help the retailer to keep a varied, well-selected stock; and he is in a position to assist the dealer in many ways by his knowledge of conditions in the trade and by his suggestions regarding modern merchandising methods. In short, the jobber carries the retailer's surplus stock for him, and enables him to do a profitable business on small capital. As long as the public finds the neighborhood retail store a necessary convenience, the jobber must continue to be a vital factor in the distribution of many staple goods. Even the development of the chain-store principle will not seriously affect his importance. Every chain-store organization must have a central supply house, and this central supply house is, for practical purposes, to be considered as a jobber, because it serves the stores in its organization in precisely the same way as the ordinary jobber serves the independent stores with which he deals.

41. *Agents, commission merchants, and brokers.*—The normal chain of distribution that we have been considering is sometimes varied by the introduction of agents, commission merchants, and brokers. These occasional factors in the marketing of merchandise, however, have no peculiar selling problems to solve. They are to be classed as wholesale or retail dealers, according to whether they sell directly to retailers or to consumers; and their selling problems are exactly the same as those of other jobbers and retailers. In some instances they stand between the manufacturer and the jobber, and in such cases their selling problems are, of course, the same as those of manufacturers who distribute through wholesale dealers.

In the textile trade, for example, and particularly in

its cotton goods branch, the customary practice is for a mill to dispose of its entire product to one or more commission houses. These commission houses then sell the cloth on commission usually to jobbers, or possibly also to retailers or to consumers, in accordance with individual selling policies. The commission house, therefore, so far as its selling problems are concerned, is in the same position as the manufacturer, and it can be considered merely as the manufacturer's representative in the distribution of the products of the factory.

When one who has something to sell, whether he is a manufacturer, jobber, or retailer, elects to distribute his goods through agents, brokers, or commission merchants, instead of through a selling organization of his own, it is usually because he would be at a disadvantage in attempting to get into direct touch with his customers. This disadvantage might be occasioned by one or more of the following causes:

1. Limited capital. Some textile manufacturers sell their product through commission houses because their capital is not sufficient to enable them to carry on their business otherwise. The commission houses advance them a portion of the selling price of the cloth before it is actually sold.

2. Limited demand. In a small city there would not be a sufficient market for office safes, for example, to justify a manufacturer's representative giving his entire time to the local trade. A merchant engaged chiefly in some other line of business, however, could profitably act as the manufacturer's agent and carry a small stock of safes to supply the local demand.

3. Unfamiliarity with the market. The instance of the average individual who wishes to sell real estate is a case in point.

4. Peculiar organization of the market. For instance, stocks, bonds, and produce are usually purchased in quantities only through organizations known as exchanges or boards of trade. Trading on these exchanges or boards of trade is confined to members, who are commonly termed brokers. An individual having commodities of this sort to sell would ordinarily have to do so through the agency of a broker.

CHAPTER V

SALES DEPARTMENT ORGANIZATION

42. *Principles of organization.*—The sales department organization of a dealer or manufacturer reflects his selling policy. Its characteristics are determined by the selling methods that have been adopted. A manufacturer who sells directly to jobbers, retailers, and consumers, requires a selling organization that differs radically from the one that would suffice if he distributed his products exclusively through wholesale dealers. Likewise a strictly local retail store does not need the same sort of organization that would be required if it sold goods by mail as well as over the counter. This does not mean that a retail dealer, for example, must necessarily have a larger force of employés to handle a combined mail-order and over-the-counter business than would be sufficient to conduct either one of these activities alone; nor does it mean that a manufacturer could not use the same salesmen to sell in many instances successfully both to jobbers and to retailers.

In any scheme of organization the distinction between the several units in the system is one of functions and not necessarily of individuals. This fundamental principle will be emphasized in the consideration of each of the three suggestive methods of organization that are presented in this chapter, but it is well to state it at the beginning so that it can be borne in mind throughout the discussion. The statement that different selling methods requir, different methods of sales department

organization means simply that the character of the activities of the different members of the organization and frequently the relation of the members to one another depend largely on the market that is being sought and the methods that are being used to reach it.

The sales department of a retailer, a jobber, and a manufacturer differ in characteristics of organization. It is not possible in the consideration of the organization problems of these three classes to present any schemes of organization that can be regarded as typical. There are no typical retail or wholesale selling organizations, because the functions of the selling force of a mail-order dealer are different from the functions of the selling force of a retail or jobbing establishment that does little or no mail-order business. In like manner, methods of sales department organization for a manufacturer are as varied as the selling methods that he may adopt. Any plan of sales department organization that is presented, therefore, can be typical only of a single class of retailers or of jobbers or of manufacturers. In considering the organization problems of each type of distributer, we shall outline a system that is suggestive of methods that are generally employed in certain common classes of the type under consideration, and we shall then indicate briefly some modifications of the suggestive system that are necessary to adapt it to other classes of distributers in the same group.

43. *Retail sales department organization.*—There are three methods of selling goods at retail—by the retail store, by mail, and by means of salesmen to call upon consumers. The first two of these methods can be conveniently combined, while the last is customarily employed alone. For most commodities, one or both of the first two methods are the normal ones. Salesmen

to call upon consumers are employed only in exceptional cases; and this method of marketing is not general enough to be considered typical of retail distribution. Accordingly, in a general consideration of retail sales department organization it will be sufficient to have in mind an establishment that employs only the first two methods of reaching consumers.

A department store is the most highly developed form of retail selling. It possesses certain characteristics that differentiate it from the "single line" establishment, but the fundamental features of its organization are typical of those of the majority of retail stores. Diagram I represents the relation between the different members of the selling organization and the principal lines of authority and of contact in many department stores.

This is not a complete chart for the entire organization of a department store or other large retail establishment. In most stores of this class there are three chief divisions. The first of these has charge of the stock of goods, its purchase and sale. The merchandise manager is normally the head of this division. The second division is concerned with the physical features of the store itself, instead of with the goods that are bought and sold. The store superintendent is usually in charge of this division. He is responsible for the physical appearance of the store building, for the arrangement of aisles, counters, and showcases, and for the conveniences that are offered to patrons, such as rest rooms, parcel checking facilities, and restaurants. He is in charge of the heating plant and the janitors, and he ordinarily directs the activities of the stable employés, the wagon men, and the delivery clerks. He is only indirectly concerned with selling, through his cus-

RETAIL STORE SALES DEPARTMENT ORGANIZATION

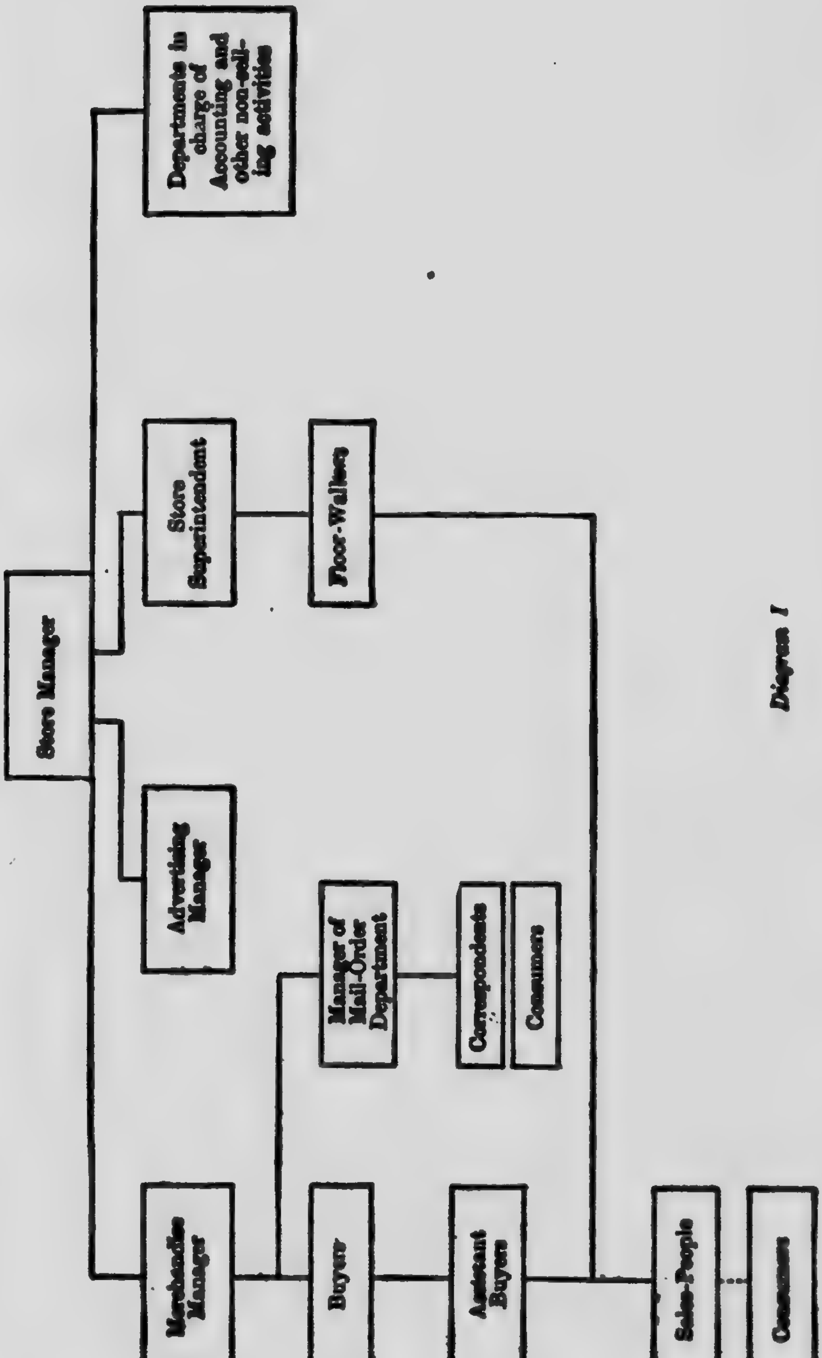


Diagram I

tomary supervision of the floor-walkers or aisle-managers and his function of hiring and of enforcing discipline among the force of salespeople. The last great division embraces the cashiers, accountants, and other employés engaged in non-selling activities, who are not subordinate to the store superintendent.

A complete chart of department store organization would show the lines of authority and contact among all the members of these three divisions. We are concerned, however, only with the strictly selling activities of the store. For that reason our organization chart shows in detail only the first of the divisions and enough of the second to indicate its connection with the selling force.

44. *Merchandise manager.*—Sales department organization is best illustrated by the consideration of a highly developed establishment in which no individual serves in more than one capacity. At the head of the business is the owner or general manager who has supervision over the entire organization. The immediate direction of the different classes of activities are delegated by him to officials in charge of the various divisions that were mentioned in the preceding paragraph. The official in charge of the stock of goods that are offered for sale is commonly known as the merchandise manager. He is the real sales manager of the store. The entire selling force of the establishment are either directly or indirectly subordinate to him, and he is responsible for carrying out the selling policies of the management.

He is not concerned, however, solely with the sale of goods. The chief characteristic of the sales department of a retail store, as distinguished from that of a manufacturer, for example, is that the officials in charge of

the selling in a retail store are also in charge of the buying. The merchandise manager, therefore, is not only the sales manager but he is also the buyer of the stock. It seems to be an accepted principle of merchandising that when goods are bought to be sold again, the same individual must be made responsible for both the buying and the selling. In a factory these two activities are usually distinct, because the purchase is usually of raw materials and the sale is of the finished product. The man who knows the most about the thing to be sold, therefore, is not necessarily the one with the most intimate knowledge of the raw materials that enter into its manufacture, and for this reason a manufacturer's sales department is ordinarily entirely distinct from his buying department.

In merchandising, however—in the purchase of goods and their subsequent sale without alteration in form—by far the most important factor in profitable selling is intelligent and economical buying. There are, of course, other factors that enter into the making of profits in a merchandising establishment, but not nearly to the extent that the productive processes, for example, determine the profit on a manufactured article. In a retail or wholesale store, therefore, there is an exceedingly close connection between the buying and the selling of the stock. Profitable buying depends not only on a knowledge of the goods themselves, but probably to a far greater degree on a knowledge of present demand, and on the ability to forecast the demand of the future. This knowledge and ability are best acquired by actual selling experience, and for that reason the members of the store organization who are entrusted with the purchase of its stock are almost invariably recruited from the selling force. Because of their selling experience

they are well qualified to direct the operations of the sales-people; and, because of the close connection between store buying and selling, it is entirely feasible to place department heads in charge of both of these activities.

45. *Buyers.*—In a small establishment the merchandise manager may purchase all of the stock, and immediately supervise all of the selling. In a larger store, however, he can not give his personal attention to the purchase and sale of the entire stock. In such cases it is customary to divide the store into sections or departments, basing the division upon the kinds of goods that are carried. For instance, in a large department store there might be the following departments or goods sections: Clothing, dress goods, food supplies, furniture, hardware, shoes, notions, books, etc. In charge of each of these departments is an official who is usually known as a buyer. The buyers are the lieutenants of the merchandise manager and are directly responsible to him. Because the merchandise manager directs both the buying and selling, the buyers also combine these two activities. They purchase the stock for their respective departments and they may also be considered as assistant sales managers of the store.

Each buyer keeps in close touch with all the details of the work of his department. He purchases goods, he fixes prices, directs the display of stock, and supervises the work of the people who actually make the sales to consumers. He spends as much time as he can behind the counters of his section making actual sales, listening to the remarks of shoppers, learning what the public want, and trying to foresee future demand. If he does not get his information at first hand, he trains

his selling force to secure it for him, and to transmit all essential data by means of a system of reports.

If the business is of sufficient size, the various departments or goods sections may be divided into sub-sections, each in charge of an assistant buyer. For instance, if a large store has a department of food supplies, this may be divided into three subsections, dealing respectively in groceries, meats, and bakery goods. The relation of the assistant buyers in a department to their chief buyer is practically the same as that of the chief buyers to the merchandise manager. The department head confines his work to supervision and the determination of policies, and the detail of supervising much of the buying and selling is left to the assistant buyers.

46. *Sales-people.*—The sales-people are the last unit in the strictly selling organization. They are the only members of the sales department of the store who do not buy as well as sell, although even in their case there is not always a distinct separation of these two functions, because the superiors of the sales-people usually encourage them to observe conditions and make suggestions that may be of benefit to the buyers in purchasing stock. One or more of the sales-people in any department are usually being constantly trained as understudies for the buyer, so that in event of his absence or promotion there may be some one fitted to carry on his work.

In a complex organization, such as that which has been described, the sales-people are directly responsible to the assistant buyers. In a smaller organization the buyers themselves direct the selling force; and, if there are no department managers or buyers, the merchandise manager has immediate authority over the selling force.

That is to say, the sales-people are primarily members of the strictly selling organization, and their selling functions are necessarily directed by the officials of the sales department. In most large stores, however, the buyers or merchandise manager do not have complete authority over the sales-people. For instance, the sales department does not ordinarily have charge of the hiring of sales-people. When a buyer or assistant buyer wants additional assistance in his department, he notifies the store superintendent of his needs, and that official is charged with supplying the additional sales-people, either by hiring them or by transferring them from some other department where they may not be needed. The store superintendent is also usually responsible for the enforcement of discipline among the sales-people, and it is his duty to see that their reports, sales tickets, delivery slips, and the like, are made out in proper form. In supervising those activities of the sales-people for which he is responsible, he is assisted by the floor-walkers or aisle managers.

The system whereby the authority over the sales-people is divided between the merchandise manager and the store superintendent and their respective assistants, is possibly not in accord with one of the principles of organization that is often considered as fundamental. This principle teaches that the best results are secured by giving to each official definite and exclusive authority over the group of employés immediately below him. Recent tendencies in industrial organization, however, indicate that this principle is possibly not so universally applicable as has been supposed. The military "staff and line" system which has been applied successfully to large industrial undertakings, and which is sponsored by

the modern efficiency experts, recognizes the advantages of assigning definite supervisory functions to each of two or more superiors who have common authority over a certain group of employés. To this extent modern organization ideas are in line with the custom of department stores; but whether the department organization that embodies a division of authority over the sales-people is or is not scientific, it seems to work well in the majority of cases.

47. *Variations in departmental organization.*—The relation that has been described between the divisions presided over respectively by the merchandise manager and the store superintendent is characteristic of a great many stores, but it is by no means universal. The floor-walkers or aisle managers, for instance, are sometimes considered an integral part of the selling organization, and they are made directly responsible to the buyers or to the merchandise manager instead of to the store superintendent. This arrangement helps to concentrate authority, and where it is in effect the store superintendent is usually relieved of all supervision over the sales-people. The customary method of organization, however, is that shown in the chart. The floor-walkers have little or nothing to do with the purchase or sale of goods. They are usually in no way responsible for the sales in the departments to which they are assigned. Their duties are to enforce discipline, to see that customers are served and to look out for their comfort in all possible ways, and to be responsible for the physical aspect of the part of the store over which they have jurisdiction. If the store superintendent has general supervision over these matters (and they are certainly within his province rather than within that of

the selling department), it is logical for the floorwalkers to be subordinate to him instead of to the merchandise manager.

In some large retail stores there is an official with the title of sales manager, whose duties are distinct from, or subordinate to, those of the merchandise manager. The functions of such an official vary so greatly, however, in different establishments, that he can not be said to occupy a definite position in retail sales department organization. He usually has no responsibility whatever for the purchase of stock. In some stores he is interested only in the development of the efficiency of the sales force. He may have general supervision over the sales-people, or he may be merely the instructor in the school of salesmanship that many establishments maintain for their employés. In other stores the sales manager confines his activities to the management of the big selling movements of the store, such as planning the special sales and seeing that they are properly merchandised, displayed, and advertised. In these latter cases he simply relieves the merchandise manager of a portion of his responsibility and is practically co-ordinate in authority with him. In the other cases, however, he is subordinate to the merchandise manager.

The time may come when a definite division between the buying and selling functions will be characteristic of retail store organization, but this division is not general at the present time. The merchandise manager is really the sales-manager just as he is also the chief buyer, and his immediate subordinates in a large organization can just as logically be called assistant sales managers as buyers. The usual retail store organization, however, is based chiefly on the buying side

of the dual functions of its officials, and their titles are usually derived from their purchasing instead of from their selling activities.

48. *Advertising department.*—In the chart of retail store organization the advertising department is shown as being distinct from the merchandise department. The relation between the advertising and sales departments in any organization is a matter in which there is no uniformity of opinion or practice. The earlier practice was for the advertising manager to be subordinate to the sales manager. Perhaps the ordinary custom now is for these two officials to be co-ordinate in authority. Advertising men generally maintain that the logical procedure is to combine the two departments under a single head. Possibly one reason why this has not been done to any extent in retail store organization is that every sale has two phases—getting the customer into the store, and caring for him when he is once there. The advertising manager is charged with the responsibility of getting customers into the store. Formerly his authority stopped there, but now-a-days he is also responsible for the numerous display devices that tempt the customer to buy as he wanders through the store.

It is difficult to say just where the authority of the advertising manager should cease and that of the sales or merchandise manager should begin. Each is engaged in one phase of selling, and whatever their nominal relation may be, they must work in the fullest harmony with each other. The mail-order department is one phase of the store's activity in which their authority conflicts. Because selling by mail is one method of coming into direct contact with the consumer and of disposing of merchandise, the chart shows the

mail-order manager as being subordinate to the merchandise manager. It is evident, however, that many of the methods of securing mail-orders must be under the supervision of the advertising manager. Mail-order selling depends largely on advertising for its success. The preparation of the catalogues and follow-up material is certainly an advertising proposition. If the advertising manager is not a salesman, his advertisements will be ineffective, and if the merchandise manager and his assistants have no knowledge of the problems of advertising, neither department can work to the greatest advantage. More and more the vital connection between advertising and selling is becoming recognized, and it is probable that in the future there will be no distinct division between the two departments.

For the sake of convenience in the discussion of a retail selling organization, we have been considering a store in which a separate individual embodies each of the functions that have been mentioned. This condition, however, can not exist in a small store where a single person may perform all of the functions that are divided among the staff of a larger organization. The small proprietor may be his own merchandise manager, buyer, and salesman. He may handle all mail-orders himself and also be his own advertising manager. Whether one man performs all of these various functions, however, or whether the organization is as complex as that of a great department store, the differentiation between the kinds of activities of the store is always the same; and it is always possible with the growth of the business to develop the organization along lines parallel to these functions.

49. *Lack of uniformity in wholesale selling organizations.*—There is probably less uniformity in the sales

JOBBER'S SALES DEPARTMENT
ORGANIZATION

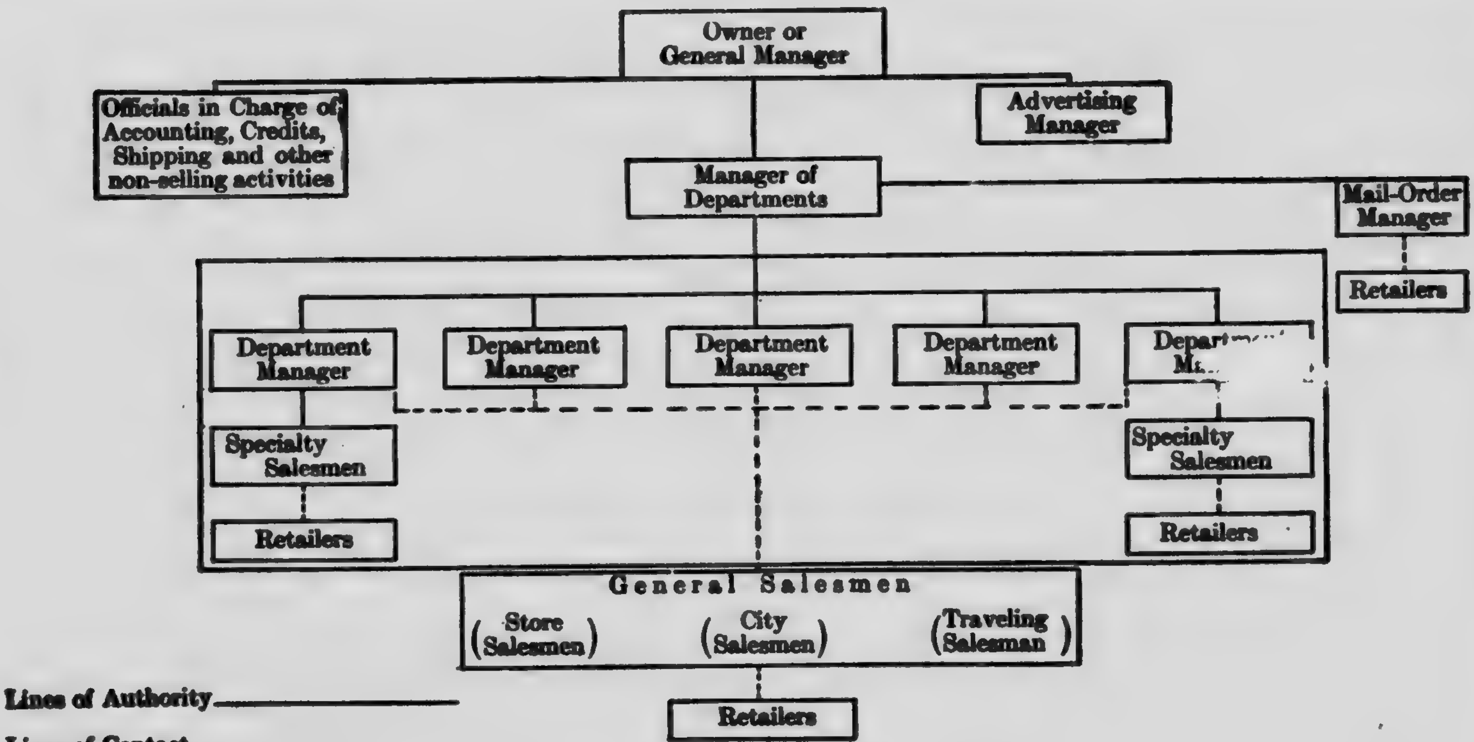


Diagram II

department organization methods of wholesale houses than in the case of any other class of distributers. There is, however, a tendency in the jobbing trade toward the development of an organization similar in its essential features to that of a large retail department store. An outline of a possible sales department organization along these lines for a wholesale business is shown by Diagram II. It must not be understood that the suggested system is typical; for there is no typical wholesale selling organization. It does, however, embody some of the best features of the most progressive jobbing houses, and it suggests the lines along which wholesale selling organization methods generally may develop in the future.

50. *Manager of departments.*—In a wholesale, as in a retail, business the functions of buying and selling are very closely related. Goods are purchased to be sold again without change in form, and gross profits are largely dependent on wise buying. There does not seem to be any necessary division between the buying and selling functions, at least as far as the duties of executive officers are concerned. The buyer must be most intimately in touch with the market, and the seller must have an exact knowledge of the conditions under which goods are purchased. Therefore in a jobbing house, as in a retail store, it is customary for one individual to combine the functions of buying and of supervising sales. In a typical case the small jobber both buys and sells his entire stock. If he has a partner, the partner attends to the purchase of a part of the stock, but they both usually act as salesmen for the entire line, or else they jointly supervise the work of one or more general salesmen. In the executive

offices, however, there is ordinarily no separation of the functions of buying and selling.

As the business develops there may be so many different lines handled and the total business may be so large that it becomes necessary to divide the organization into departments. Each of the department heads has a definite part of the stock to purchase, and he is, in addition, responsible for its sale. Where there is departmentation of any sort, however, it is necessary for some one to be superior to all the department heads and to correlate their activities. This is usually the owner or general manager of the business, but in the largest organizations he is frequently given the title of manager of departments. He is the sales manager and the chief buyer, and his relation to the heads of departments is similar to that of a retail merchandise manager to the buyers who operate under his supervision.

51. *Department managers.*—Each of the department managers is in general charge of one or more of the lines that are offered for sale. For instance, some of the departments in a wholesale grocery may be as follows: canned goods; tea, coffee, and spices; fresh fruit and produce; soap and laundry supplies; confectionery; and cigars and tobacco. Each department manager buys the stock for his department, fixes its price, and sees that the salesmen give it the attention to which its importance may entitle it.

52. *Specialty salesmen.*—In a highly developed wholesale business, some of the departments may employ so-called specialty salesmen to handle their respective lines exclusively. This is usually the case when the successful sale of an article demands a detailed familiarity

with it which can only be acquired by a salesman who gives his entire time to it, or when a jobber specializes in a certain line and wishes to push it by means of specialty salesmen as well as the general salesmen. For example, many wholesale grocers specialize in cigars and tobacco, and they frequently employ salesmen to handle these lines exclusively. When specialty salesmen are employed, they usually work directly under the supervision of the department manager who is in charge of the line that they sell, and they are only indirectly responsible to the manager of departments.

53. *General salesmen.*—With the exception of the comparatively few instances in which specialty salesmen are employed, the entire line of a wholesale house is usually handled by general salesmen. Even if there are specialty salesmen for some departments, the special lines are sold not only by the specialty salesmen but are handled by the general salesmen as well. In some houses the general salesmen are directly controlled by the various department managers. It is obvious, however, that this system may be productive of conflicting directions to the salesmen, and of a failure to follow the general selling policy that may be for the best interest of the business as a whole. Each department manager is naturally anxious that his department shall lead the others, and if he is permitted to direct the activities of the general salesmen, he is likely to forget that the other departments have an equal claim upon their services, and he may be tempted to issue instructions in opposition to, instead of in harmony with, the instructions of the other department heads. Accordingly it is advisable to make the general salesmen directly responsible only to the manager of departments.

Before communicating with the salesmen on any important point, a department manager should refer the matter to the manager of departments, and the responsibility for all directions to the salesman should rest upon him. He is the general sales manager. It is his duty to direct and control the natural competition between the departments so that the best interests of the business as a whole will be advanced; and if any department head issues instructions to the general salesmen, it should be understood that the instructions come from and are approved by the manager of departments. The best results will be secured if all instructions bear his signature. The heads of departments come into constant contact with the general salesmen, but the salesmen are not logically directly subordinate to them.

There are usually three classes of general salesmen —floor or store salesmen, city salesmen, and traveling salesmen. The store salesmen wait upon customers who come to the store to select their stock. In many lines there are fixed seasons of the year when out-of-town dealers come to the central markets in large numbers to make their purchases. There must always be adequate provision for taking care of these customers. Frequently store sales are made by the department heads, but in large organizations floor salesmen are frequently maintained for this purpose. City salesmen call upon dealers whose places of business are in the city where the wholesale house is situated. Traveling salesmen call upon out-of-town customers. All of these classes of salesmen occupy the same position in the scheme of organization. Their general functions are the same, and they differ only with respect to the identity of the dealers with whom they come into contact.

If a wholesale house does a large mail-order busi-

ness, it may have a mail-order manager, who is normally responsible to the manager of departments. Such an official, however, is not so essential in a wholesale as in a retail store. A large proportion of the wholesale salesmen's orders are usually sent in to the house by mail, and most of these orders call for items to be supplied by several of the departments. Accordingly, even in a small organization there is usually found a responsible order department, to which all orders are delivered as soon as they have been approved by the credit man. Each order is then usually split up so that each department head is kept in touch with the demands upon his stock. It is the duty of the order department to see that the entire order is filled promptly and in accordance with the customer's wishes. Because practically every wholesale organization must maintain this department to care for the large proportion of the salesmen's orders that are received by mail, there is ordinarily no necessity for a separate department to care for the orders that may be received directly from customers.

54. *Jobber's advertising department.*—An advertising manager as a separate official is seldom found in jobbing houses. Most jobbers confine their advertising activities to the preparation and distribution of a general catalogue and to the publication of circulars or other announcements of special offerings. The supervision of these activities is usually delegated to one of the department managers. There are other kinds of advertising than those that have been mentioned, however, that offer great opportunities to the wholesale dealer. Many jobbers advertise in trade publications, and an increasing number are realizing the possibilities of house organs for distribution among their employés

and customers. If advertising is attempted on an extensive scale, it is necessary to put it in charge of an advertising manager, and this official is usually subordinate directly to the owner or general manager, not because the general purposes of his activities are distinct from the aims of the manager of departments, but because it is not yet generally customary for selling and advertising to be directed in detail by a single official.

55. *Special applications of the suggestive wholesale selling organization.*—The chart of a jobber's selling organization does not show all of the lines of contact between the selling force and the other departments of the business. The credit man is an exceedingly important official in a wholesale house, and the sales department must work in the closest harmony with him, just as it must co-operate with the officials in charge of accounting, shipping, and other non-selling activities. The primary purpose of the chart is to show definite subordination of authority, and only those lines of contact are presented that are necessary to indicate the relations between members of the selling organization.

As has been suggested previously, any chart of organization shows the relation of functions and not of individuals. A department manager, for instance, in a wholesale house may not confine himself to the duties of that one office. He may also be a salesman actively engaged in calling upon the retail trade, he may be the advertising manager as well, or he may have assigned to him some of the duties of one or more of the other office departments. The owner or general manager of the store may be, and frequently is, the active manager of departments. The extent to which one individual confines himself to the duties connected with a single unit in the chain of authority depends solely on

the size of the establishment. What has been said about the general application of the scheme of retail sales organization applies in the case of the jobber as well. The plan that has been outlined is seldom found in its entirety in any one wholesale house. It represents, however, the general tendency in sales department organization in the jobbing trade. It embodies the characteristic features of every largely successful business—specialized activities, departmentation, and direct responsibility and delegation of authority.

CHAPTER VI

MANUFACTURERS' SALES DEPARTMENT ORGANIZATION

56. *Dependence of manufacturers' selling organization upon selling methods.*—In the sections dealing with manufacturers' selling methods it was shown that there are three possible classes of customers for a manufacturer's products—jobbers, retailers, and consumers. A manufacturer can reach any of the classes of customers that he may select, by salesmen, by mail, by retail stores of his own, by independent agents who may buy his products to sell them again, or by branch-houses that he may establish throughout his territory to handle the business in their vicinities. His sales department organization depends primarily on the market and the selling methods that he may select. Because of the number of these selling methods and the many possible combinations of one or more of them, it is evident that there can be no typical method of sales department organization for a manufacturer. In order to indicate the possibilities of sales department organization in any particular manufacturing establishment it is necessary to have in mind a business that reaches all possible classes of customers and utilizes all possible selling methods. A general outline of the selling organization of such an industry is shown in the chart on page 68 (Diagram III). The imaginary manufacturer whose sales department is there represented sells his products directly to any one who wishes to purchase them.

MANUFACTURER'S SALES DEPARTMENT ORGANIZATION

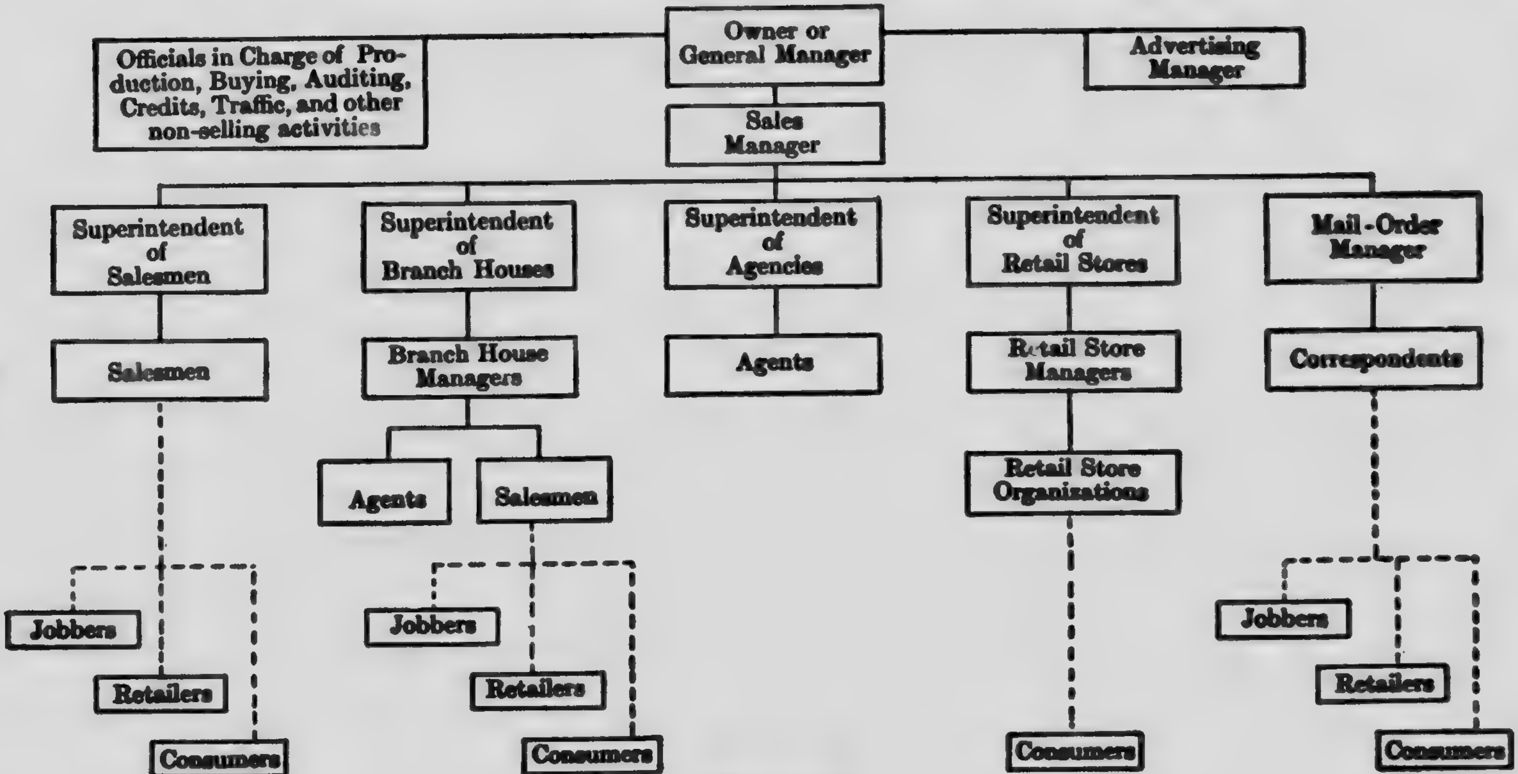


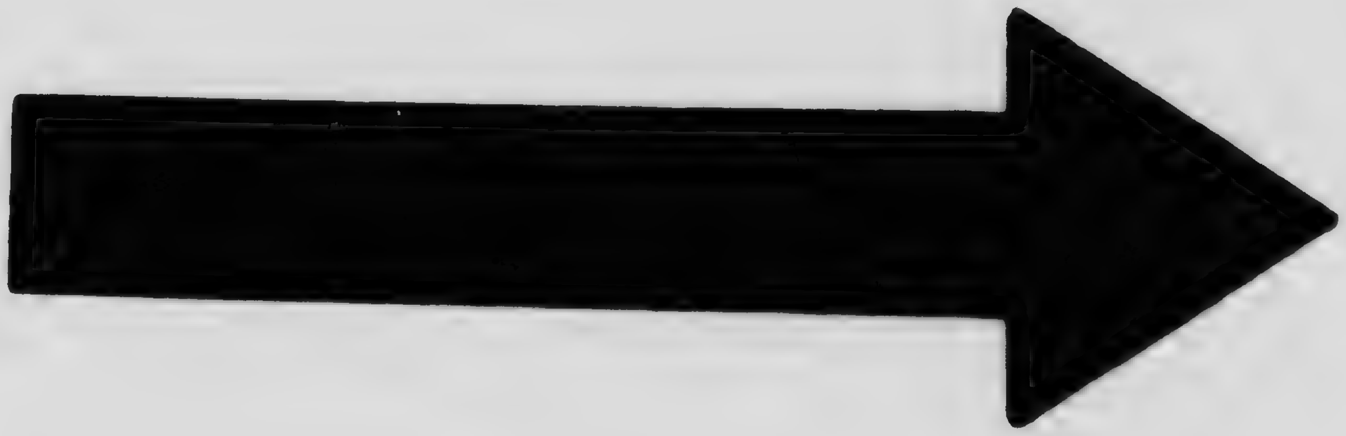
Diagram III

Therefore, his organization must reach jobbers, retailers, and consumers. The contact with the market is effected by the use of branch-houses, salesmen, independent agents, retail stores owned by the manufacturer, and a system for handling mail-orders. Probably no manufacturer's sales department is as extensive as the imaginary one under consideration, but a no less extensive system would be useful in suggesting plans of a selling organization to fit all the possible marketing methods that are open to the manufacturer.

57. *Two differences between manufacturer's and wholesaler's or retailer's selling organizations.*—A manufacturer's selling organization differs radically from the sales department of a wholesale or retail store in two important particulars:

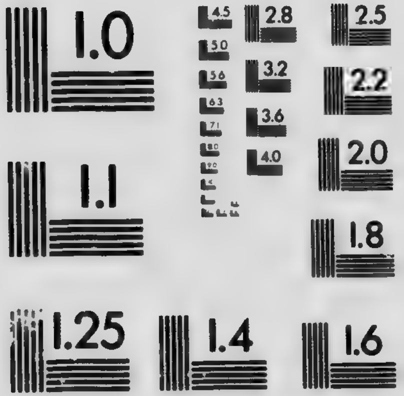
In the first place, a manufacturer's selling officials have nothing to do with buying. In a small factory, of course, the sales manager may also be the purchasing agent, but this is simply because the establishment is small and it is not possible to assign a different individual to each activity. The problems of factory buying are entirely distinct from the problems of selling; and the best results are obtained when factory buying and selling are recognized as specialized activities and are supervised by separate specialists.

The second important difference between wholesale or retail and factory sales organization is found in the principles that underlie departmentation. In a wholesale or retail store we have seen that the head of the department (whether he is called a buyer or a department manager) is in charge of the sale of a certain kind of goods. In a department store, for example, one buyer is in charge of groceries, another is in charge of dress goods, another is in charge of furni-



MICROCOPY RESOLUTION TEST CHART

(ANSI and ISO TEST CHART No. 2)



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ture, and still others are in charge of each of the other kinds of goods that are sold. In a factory organization, however, the divisions in the sales department are not ordinarily based on the different kinds of goods that are sold but on the different ways in which they are sold. Thus, in the organization shown in the chart, no account is taken of the different products that may be made by the factory. The basis of departmentation is solely the different methods used by the manufacturer to distribute his goods. It is not true, however, that this principle of departmentation is universally applied in manufacturing establishments. If the total business is large, and if a considerable number of different kinds of articles are produced, a separate sales manager is sometimes in charge of the sale of each class of commodities, and under each sales manager is a complete organization designed to reach the market that has been selected, in accordance with the selling methods that have been deemed advisable.

A certain manufacturing establishment, for example, does a large business in a number of more or less closely allied lines. It manufactures many kinds of soaps for family use, soap-chip for laundries, and lard compound; it deals in cotton-seed oil and in glycerine and other by-products of its main productive processes. For each class of products there is a sales organization that is maintained separately from all the others. This condition, however, is not typical of the manufacturing field. In most factories there is a single selling organization, presided over by a single sales manager who is responsible for the distribution of all of the products.

58. *Sales manager.*—In a manufacturer's organization the official who is in charge of selling is almost always called the sales manager. He is responsible

only to the owner or to the general manager. In a small business he may be an active salesman as well as a manager of salesmen, and he may personally exercise detailed supervision over many of the activities that would be under the immediate supervision of subordinates in a larger organization. In the case under consideration he is purely an executive official. The number of selling methods of which he has general control is so large that he has found it necessary to delegate immediate direction of the different activities to five officials who are called, respectively, superintendent of salesmen, superintendent of branch-houses, superintendent of agencies, superintendent of retail stores, and mail-order manager.

59. *Superintendents of different kinds of selling activities.*—Whether sales are made to jobbers, retailers, or consumers, or to any combination of these classes of customers, the method of distribution by salesmen is exceedingly common in the manufacturing field. Some official must be directly responsible for the activities of the salesmen. If a great number of selling methods are employed, and if the sales manager, consequently, can not give personal attention to all the details of any one method of distribution, it is customary to place the immediate supervision of salesmen in the hands of a subordinate of the sales manager who may be called the superintendent of salesmen. Such an official, however, is seldom necessary. The salesmen are usually so vital a part of the selling organization, and the success of their activities is so largely responsible for the success of the enterprise, that ordinarily the sales manager retains direct supervision over them even when it is necessary to delegate direct control of other selling agencies to subordinates.

60. *Salesmen.*—The chart does not differentiate between specialty salesmen and general salesmen. Specialty salesmen are usually employed by a manufacturer under the same conditions that determine the employment of specialty salesmen by a jobber. In many factory sales organizations, even though a single sales manager may be in charge of the sale of all lines of goods that are produced, separate salesmen are assigned to the sale of each line. In other cases there is a combination of specialty and general salesmen, and in still others general salesmen alone are depended on to market all the goods. In all of these cases, however, the place of the salesmen in the scheme of organization is the same, and for that reason there is no differentiation between the classes in the organization chart.

61. *Branch-houses.*—The organization of each branch-house may be as complex as that of the main office itself. In other words, each branch-house may have salesmen operating directly under its manager, it may have supervision over other branch-houses, it may sell to agents, operate retail stores, and have a mail-order department. It is not customary, however, for a branch-house to be engaged in all of these activities. The typical branch-house functions are supervising local salesmen and selling to local agents; and these activities alone are indicated on the chart.

62. *Agents.*—An agent is technically an independent representative. He is usually not on the manufacturer's pay roll and the manufacturer has only the most general supervision over his activities. He is not in reality an integral part of the manufacturer's selling organization. Accordingly in any business that distributes goods through agents it is not necessary to

trace the sales department organization further than the agent. From the standpoint of the manufacturer an article is finally disposed of when it is purchased by the agent. For this reason the chart attempts no explanation of methods of agency organization. The agent's plan of selling organization may be that of a manufacturer, jobber, or retailer, depending on the market he is trying to reach and the selling methods he has adopted.

63. *Manufacturer's retail stores.*—Distribution of goods through retail stores owned by the manufacturer is not general. It is frequent enough, however, to be considered as one of the possible methods of marketing that is open to a manufacturer. If the manufacturer operates but one retail store, the superintendent of retail stores and the retail store manager are the same individual. If there are many stores, and if it is not possible for the sales manager to give his attention to the details of this method of distribution, it is necessary to have a superintendent in charge of all of the retail stores. The organization of each retail store is practically the same as that of the retail store organization that we have already considered. To be sure, the merchandise manager does not purchase his stock in the open market, but he has to make requisition for it from the factory in accordance with his needs, and in all essential particulars he has the same duties as the selling head of a detached retail establishment.

64. *Mail-order department.*—The mail-order department is co-ordinate with the other selling departments. It is one of the five outlets for the product of the factory, and, therefore, is under the general control of the sales manager.

65. *Relation of sales and advertising departments.*—In

the consideration of retail and wholesale selling organi-zations we have indicated the close connection betweer the advertising and sales departments. What has beer said with regard to the relation between these depart-ments in a retail or wholesale store applies to a manu-facturer's organization as well. Commercial advertis-ing is just as truly one form of selling as is direct personal salesmanship. Whether the immediate pur-pose of advertising is to create interest in the product, to produce inquiries, or to bring in actual orders directly from readers of the advertisements, the ultimate pur-pose of all commercial advertising is solely to increase the sale of the goods that are advertised. Logically, therefore, there is no necessary distinction between the sales and advertising department. This is the conten-tion of many advertising men, who maintain that ulti-mately the advertising manager and the sales manager in every industry will be the same individual. This condition, however, has not been realized as yet. Never-theless the intimate relation between advertising and selling is generally recognized, although organization methods differ in their attempt to express that relation.

Frequently the advertising manager is subordinate to the sales manager. The disadvantage of this arrange-ment is that advertising is such a specialized field of endeavor that those who have not made a careful study of it are not competent to pass judgment upon its methods, and a general sales manager whose practical experience has usually been entirely in the line of per-sonal salesmanship is scarcely in a position to exercise intelligent supervision over the details of advertising.

Advertising is most assuredly selling, and all the prob-lems of distribution enter vitally into the problems of advertising. In addition to these, however, advertising

has its own peculiar problems, which can be solved successfully only by a man who has had professional training and experience in the great field of practical publicity. When the business world produces a sufficient number of executives of broad experience in all phases of distribution, it will undoubtedly become customary to consolidate the direction of advertising and of other forms of selling in the hands of a single official. Under present conditions, however, in a suggestive plan of sales department organization it seems wise to make the sales manager and the advertising manager coordinate in authority and responsible only to the owner or general manager of the business.

66. *Credit and traffic departments.*—It is sometimes contended that the credit and traffic departments are essential parts of a manufacturer's selling organization. The nature of the functions of these departments, however, does not justify this contention. Neither of them is engaged primarily in the sale of goods, the one purpose of the sales department. The credit man helps to guard the manufacturer's profits by passing upon the advisability of accepting sales that have already been made. It is true that he should be a salesman, because he has many opportunities to inject selling talk into his letters to customers; and he should always conduct his activities with a view to advancing the sale of goods so far as he can do so consistently with his specific duties to his employer. His main purpose, however, is not to make sales but to pass upon those already made, and for that reason he has no logical place in a strictly selling organization.

In like manner the traffic manager can do much to assist the selling force. By his knowledge of rates and routes he can make it possible at times for the prod-

ucts of his employer to be sold at lower delivered prices than the goods of competitors, and in his relations with customers he can do much to increase the prestige of the house. His chief duties, however, do not begin until the orders have been actually received. It is his function to see that shipments are delivered in the shortest possible time and at the lowest possible rate. Accordingly the traffic manager is logically no more subordinate to the sales manager than is the chief accountant or the heads of any of the other non-selling departments of the business.

67. *Method of adapting the manufacturer's selling organization chart.*—The manufacturer's sales organization that has been described is an ideal one. It is based on the supposition that every possible means of distribution is employed in marketing the product. This condition seldom exists. Few manufacturers sell to jobbers, retailers, and consumers alike; and most of them use only a few of the possible methods of reaching the market that they have selected. The organization chart can be readily modified to suit any particular business. For instance, if the manufacturer does not sell to consumers or retailers, as is the case with most manufacturers of grocery specialties, the only necessary change in the organization is the elimination of the retail stores, the salesmen who sell to consumers and retailers, and the machinery of the mail-order department designed to reach these classes of customers. The relation between the remaining distributing factors is unchanged. If a producer sells only to retailers who act as his agents, the entire retail store and mail-order sections of the chart may be eliminated, as well as the salesmen who sell to jobbers and consumers. In this manner the chart is capable of innumerable

variations in its details. Whatever may be the extent of the alteration, however, there is no change in the general principles of the organization. The effective sales organization is always based on the idea of definite departmentation and graded delegation of authority.

CHAPTER VII

METHODS OF SECURING CO-OPERATION BETWEEN SELLING AND OTHER DEPARTMENTS

68. *Necessity of inter-departmental co-operation.*—We have already indicated the necessarily close relation that must exist between the sales department and all the other departments of a business. The sale of goods at a profit is the ultimate purpose of every organization, whether its primary purpose is the production of such goods, or whether it is concerned simply with the distribution of articles that are produced by others. Accordingly the efficiency of the sales department is a matter of great importance to every business owner or manager. This efficiency can not reach its highest development unless every department cooperates with the selling organization in order to bring about the most economical and successful administration of the selling activities. The intimate relation between the advertising and sales departments has been frequently referred to. Although the connection is not always so obvious, there is a similar relation between the sales department and the departments in charge of production, transportation, credit, accounting, office routine, and all other phases of the activities of any business establishment.

The development of co-operation between the selling and other departments can not be left to chance. Unless an organization is composed of exceptional individuals, it seems to be natural for many of the em-

ployés to work at cross purposes. Each department naturally is concerned chiefly with its own interests; and inter-departmental jealousy and lack of co-operation are unfortunately characteristic of many establishments, even when their organization is otherwise highly developed and they have attained a large measure of success.

Three things are influential in bringing about the necessary co-operation among the members of any department and among the different departments in a business. They are as follows:

Tact
Profit-sharing
System

69. *Use of tact in securing co-operation.*—The problem is largely one of human nature, and wherever this factor is met, the solution certainly can not be found by a resort to merely mechanical methods. The function of system in business is to secure the greatest results with the least expenditure of time and energy. But no system, however well planned it may be or however carefully installed, can be effective in accomplishing its purposes unless those who are affected by it are in sympathy with it and are willing to co-operate with all of their fellow employés who are concerned with its operation. The human factor must always be considered; and no mechanical means will ever be devised that will take the place of tact in the equipment of the successful business man.

Whatever other methods may be employed to secure departmental co-operation, they must always be made effective by the exercise of tact. A sales manager must

consider each of his subordinates as an individual problem. He must study him, learn his strength and weakness, discover his most approachable side—in short, he must deal with him as a man and not as a machine. In the same way, the executives of the sales department must deal with the other members of the office and factory organization. They must be courteous, patient, open-minded, and with a regard for the opinions of others. They must remember that while they may gain their point by mere force of their authority, or by calling into play the authority of the general manager or owner of the business, every act of this sort will alienate the support of their subordinates or associates, unless the authority is exercised tactfully and with a regard for the feelings of others. Tactless attempts to compel co-operation, instead of solving the problem, only make its ultimate solution more difficult.

It is obviously impossible to give practical directions for the development of tactful relations within and among departments. It is not a matter to be considered in the abstract, like organization methods or office systems. It is something that pertains solely to the individual. The only general directions concerning it that are worth anything are those that urge the general manager to eliminate from his organization any individual who does not exercise tact in his dealings with his associates. A tactless salesman is an impossibility, and a tactless sales manager does any business more harm than good. If tact is displayed in the direction of salesmen, it will also usually be found in the relation of the selling officials to the other department heads in the business. If it is not found in these relations, the fault can not be cured by any revised system or plan of reorganization. The only cure is the elimination of the

individual who is incapable of working in harmony with the other members of the force.

70. *Profit-sharing to induce co-operation.*—In any large business, if there is lack of co-operation between the departments, it is often due to the fact that the employés think more of the interests of their respective departments than of the business as a whole. Having no direct interest in the profits arising from the successful conduct of the enterprise, each employé is likely to think that what he conceives to be the advancement of the interests of his department is the sole end toward which he should strive, no matter how adversely such so-called advancement may affect other departments. He frequently fails to realize that any real departmental success is dependent on the success of the entire business. If controversy or friction arises with other departments, he may be more concerned with proving his own department in the right than with the ultimate effect of the controversy upon the owner's profits.

Where this condition exists, one method of removing the difficulty is to give the employés a share in the profits. Profit-sharing, with this purpose in view, is becoming increasingly popular in all branches of industry. It is used most frequently in manufacturing establishments and in retail stores, but wholesale houses also are beginning to realize its possibilities and to inaugurate profit-sharing in some form among their employés. Profit-sharing is a generic term used here to refer to all methods by which employés are given a financial interest in the business, in addition to their regular remuneration. It may be in the form of a division among the employés of a certain predetermined portion of the profits; it may be in the form of conditional salaries dependent on the profits made,

ownership of stock by employés, cash bonuses for exceptional results, or other modifications of the general principle.

In many cases profit-sharing undoubtedly increases co-operation among the various departments. Theoretically the different officials and minor employés will willingly subordinate their individual desire and inclinations and work harmoniously for the common good if that course will be to their immediate financial advantage. Practically the beneficial results are not always as great as might be expected, because human nature is such that it is hard for any individual to distinguish the greater good from his own immediate interests, and, even when this is possible, a small share in increased profits to be distributed twelve months hence is likely to be of less importance than the satisfaction derived from making a personal point in a controversy. Despite the practical qualifications of the theoretical benefits of profit-sharing, however, the plan works well. Particularly in the case of higher officials whose share in the profits is large, it has been found in many cases to increase materially the willingness of department heads to co-operate for the advancement of the common good.

71. *Committee system as an aid to co-operation.*—The third method of promoting co-operation between the selling and other departments is the use of some system whereby the managers of departments are forced to confer about the matters that concern them in common. By being given an opportunity to express their own views and to learn at first hand the opinions of others who are equally interested in the matters under discussion, and by being given a large measure of responsibility for the decisions on important questions, they are likely to lose their narrow departmental points of view

and to think more of the interests of the business as a whole.

The committee system is one of the best methods that has been devised for securing the beneficial results of departmental co-operation. It is not a new thing; it has been advocated and practiced successfully for several years by many managers of industrial plants. It has been proved immensely effective in securing the co-operation of factory foremen; and it is just as effective when it is used to secure the co-operation of the higher employé. An important reason for the lack of co-operation is the frequent failure of one department manager to get the point of view of another—to know his problems, and to look at the business from the standpoint of his position. If the two department heads can be brought together to consider frankly the various aspects of any question on which they may hold different opinions, they are very likely to alter their original attitudes and to reach a conclusion that is satisfactory to both. In many organizations, of course, there are voluntary conferences of this sort, and the several department managers are glad to listen to the opinions of others and to profit by the general discussion. When there is no systematic provision for conferences, however, the managers are too often unwilling to go into them voluntarily, and jealousy and lack of intercourse are too often the rule instead of co-operation and mutual helpfulness.

The committee system can be used by manufacturers, wholesalers, and retailers. The principles underlying its successful operation are the same in all cases, and it is not necessary, therefore, to consider its application in detail to each of these three classes of business. Manufacturers' organizations, however, have probably

applied it most effectively, and for that reason we shall present its principal features in connection with such an organization. The manufacturing industry that we shall consider for the purpose of illustration has a highly developed sales department. The territory in which its products are sold is divided into three divisions with a division sales manager in charge of each. The division sales managers all make their headquarters at the main office of the company. They are in reality assistant sales managers, co-ordinate in authority, and directly subordinate to the general sales manager of the organization. In this company the advertising department is of great importance, and the advertising manager is not responsible to the sales manager, but is equal in authority with him. Diagram IV on page 85 illustrates the application of the committee system to the office organization of the company.

72. *Executive committee.*—In general, this system involves the grouping of department heads into a series of committees, in each of which the majority vote, on matters brought before the committee, prevails against the opinion of any dissenting member. The highest authority is vested in the executive committee of the corporation, which is composed of the corporate officers. As is frequently the case, each of these officers has a definite function in the active affairs of the company. The president is the active executive head of the business, with general supervision over all departments. The vice-president is the general manager, with immediate control over the productive end of the company's activities. The treasurer is the superior officer of the cashier, auditor, office-manager, credit man, and statistician. The secretary is the general sales manager, and the assistant secretary is the advertising manager. It

APPLICATION OF COMMITTEE SYSTEM TO MANUFACTURER'S ORGANIZATION

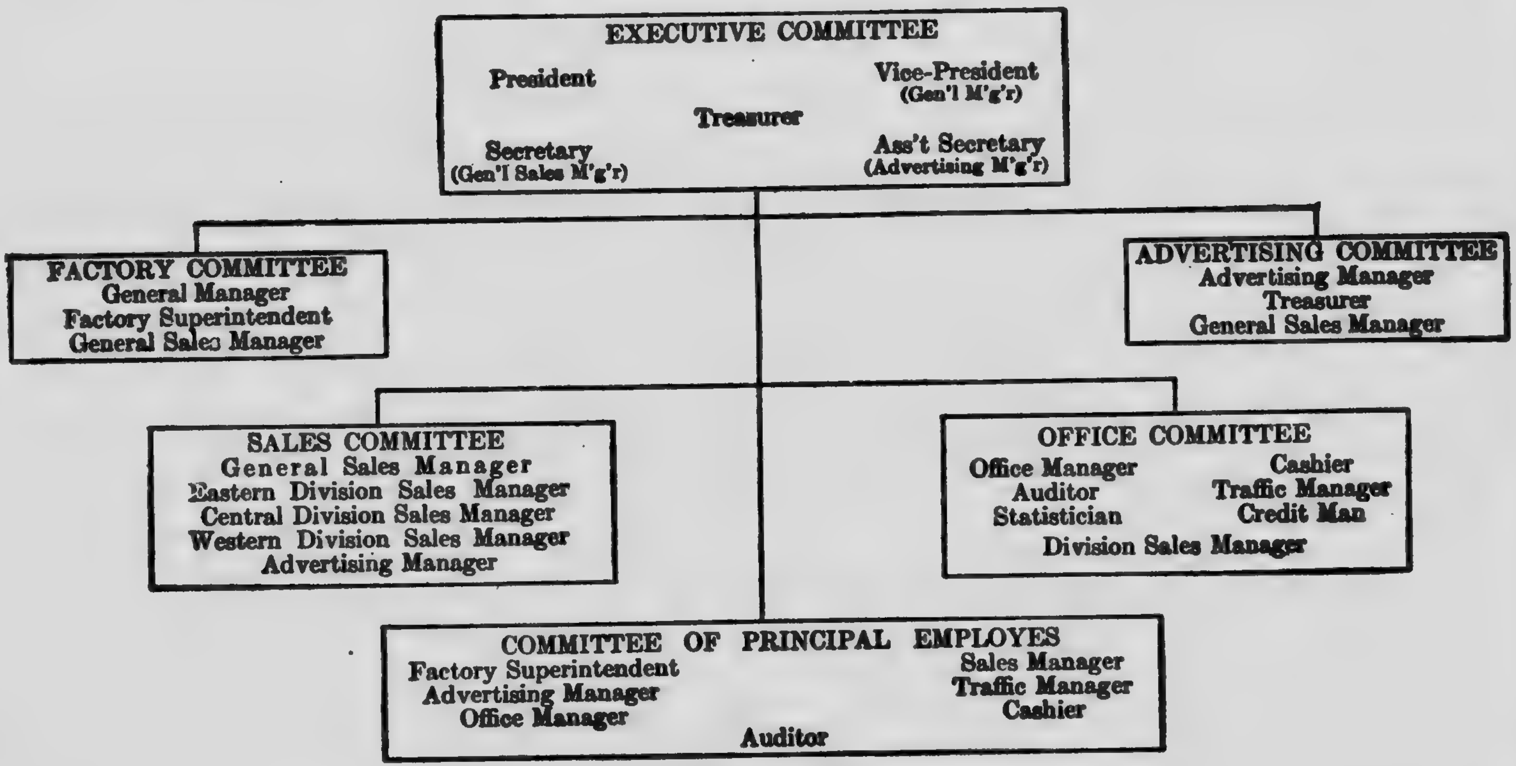

Diagram IV

is evident, therefore, that the three principal departments of the corporation—production, marketing, and the office organization—are represented on the executive committee. This committee meets daily. Every action of any of the other committees is subject to its approval or veto. If a matter comes to the executive committee after favorable action by the advertising committee, for example, it is naturally defended in the executive committee by the advertising manager; and if it comes from the factory committee, it usually is presented by the general manager. In like manner, the sales manager ordinarily represents the sales committee in matters that go to the executive committee, and the conclusions of the office committee are presented by the treasurer.

The executive committee may do one of three things with any matter that has been approved by a subordinate committee: it may approve the recommendation and order it to be put into effect immediately; it may disapprove it and order it back to the subordinate committee for further consideration; or it may finally veto the recommendation. Of course, the executive committee also originates many measures. It is the governing body of the corporation, and it is responsible only to the directors and ultimately to the stockholders.

Often the executive committee of a corporation has only perfunctory duties. This is usually the case when many of the officers are not active in the direction of the company's affairs. When the officers do hold responsible positions in the organization, however, the executive committee as an active governing body offers extraordinary opportunities for the development of co-operation among the officers. Even when one or two officers hold most of the stock and are unwilling to permit important

matters to be decided finally by a majority vote of the executive committee, it is entirely feasible to require the committee to pass upon all matters affecting the business as a whole. The president may reserve the power to veto the committee action, but the free interchange of ideas in the committee meetings will be productive of co-operative effort and a common sympathy with the view points of the various departments, which can be secured in no other way.

73. *Factory committee.*—In the organization that we are considering, the factory committee is composed of the general manager, the factory superintendent, and the general sales manager. The organization of this committee, like that of all the other committees, may vary in individual cases, but it is of the greatest importance that its membership should always include a representative of the sales department. All matters affecting out-put should be considered from the selling standpoint as well as from that of the factory engineer. The presence of the sales manager on the committee gives the factory officials an opportunity of securing the selling point of view, and is largely instrumental in eliminating the unfortunate lack of sympathy between the production and sales departments that is altogether too common in manufacturing industries.

In the case of most factories there are very few weeks during the year in which the orders and the out-put are exactly equal. In dull times the warehouses fill up with the product, and the factory thinks the sales department is not doing its utmost to take care of the production. When business is exceptionally good, the sales department is often unreasonable in its demands upon the factory for increased out-put far beyond the normal or possible rate. A factory committee, on which there

is a representative of the sales department, obviates this mutual misunderstanding and enables each of the two chief branches of the business to realize that the other is doing its best at all times.

74. *Sales committee.*—The sales committee is composed of the general sales manager, the three division sales managers, and the advertising manager. In this particular organization no departments are represented on the sales committee except those that have to do directly with distribution. The same result that would be secured by representation of other departments on the sales committee is realized by the presence of representatives of the sales department on all the other important committees.

The working of the principle of majority rule is well illustrated in the case of the sales committee. Theoretically the three division sales managers are subordinate to the general sales manager. Nevertheless all four of these officials meet in the committee room on an absolutely equal footing. Suppose, for example, that the western division sales manager wants a special price on some product for a certain group of towns in his division. The eastern and central division managers agree with him that this price is advisable. They can not, however, convince the general sales manager that they are right. When the matter is put to vote, it may have the approval of all the members of the committee except the general sales manager. Despite his disapproval, it goes to the executive committee for final action, bearing the formal approval of the sales committee.

In the case that we are considering, the sales committee meets daily, and every selling subject, unless it is of a merely routine character, is brought up before all the members for discussion. The minutes of their meet-

ings are read by the executive committee, and the recommendations of the sales committee are either approved or vetoed or sent back to the committee for further consideration. If the sales committee recommends a campaign that involves advertising, the character and advisability of the advertising must be passed upon by the advertising committee before the matter goes before the executive committee.

75. *Advertising committee.*—The advertising committee is composed of the advertising manager, the treasurer, and the general sales manager. This committee initiates advertising ideas, and acts in general as an advisory council for the advertising manager, passing upon his work, and aiding him in every way possible. Its important recommendations must be passed upon by the sales committee before they go to the executive committee. In matters of advertising details, however, it takes action without reference to the sales committee, and subject only to the approval of the executive committee.

76. *Office committee.*—The office committee is made up of the department heads who have supervision over the routine of the office—entering of orders, accounting, credit matters, correspondence, billing, etc. In these activities the unfortunate results of the lack of system and co-operation are most frequently evident, and it is particularly important, therefore, that the office committee be carefully organized and that its members cooperate with each other in all matters that affect them in common. The sales department is represented on this committee by one of the division sales managers, because of the interest of the sales department in seeing that the orders, inquiries, and complaints of its customers are given the careful attention that they deserve. This

representation is also helpful because of the necessity of harmonizing the routine work of the sales department with the office system of the rest of the organization.

77. *Variations in system.*—In addition to the committees that have been described, many corporations have one inclusive body that may be called the committee of principal employés. It is composed of all the department heads in the business. Its meetings may be irregular, but it is a most effective means of getting together the chief members of the organization and instilling into them the idea that individual success can be achieved only by co-operative effort toward the success of the business as a whole.

This system of committee organization is suggestive rather than typical. The personnel and duties of the various committees differ greatly in the different organizations in which the committee system is used to promote co-operation. In every organization the sales department may not be given the commanding position that it occupies in the case that has been described. Its importance, however, justifies this position. There is scarcely any activity of a business that does not have some effect upon the sale of goods, and for that reason a representative of the sales department should hold membership in each of the important committees.

78. *Practical results of committee system.*—One objection that is sometimes urged against the committee method of securing departmental co-operation is that its operation is more likely to result in profitless discussions than in facilitating the transaction of business. It is true that when men are given the opportunity to air their views before others, there are always certain individuals who take delight in talking rather than in acting, and who endeavor to secure personal prestige in

wordy debates. It is the duty of the chairman of each committee, however, to see that the discussions are pertinent and that they are directed along the most profitable lines. When the committee meetings are properly controlled, the advantages of the system far outweigh its possible disadvantages. The committee system is not always necessary or advisable in a small organization in which the department heads naturally come into sufficient daily contact with each other without enforced attendance at committee meetings. But when the organization is of a character that precludes the possibility of natural daily contact, the committee system has been proved to be of immense value in the development of departmental co-operation.

CHAPTER VIII

THE SALES MANAGER

79. *Purpose of selling campaign.*—The selling campaign is simply the practical utilization of the selling methods that have been adopted and the selling organization that has been developed. The problem of the campaign, therefore, is the problem of how to make the most effective use of marketing methods and sales department organization. One factor in the solution of this problem has already been considered—the development of methods of insuring inter-departmental co-operation so that the efforts of the selling force will not be nullified by the conflicting purposes of the other departments. The other and the more important factor in the solution of the problem is the development of the sales department itself to the highest possible degree of efficiency.

In this development the fundamental principles are always the same, whether the problem is considered with particular reference to the activities of a retailer, a jobber, or a manufacturer. Of these three classes the retailer has the least difficult problem, because of his compact organization and his usually localized trade. The chief problems that he has to solve in the development of the efficiency of his selling organization are largely included in the problems of the jobber and the manufacturer, and, in addition, the jobber and the manufacturer have peculiar problems of their own that the retailer ordinarily does not have to meet. In like manner, the problems of the jobber are included in those of

the manufacturer, and, in addition, the manufacturer with a wide distribution of his products must solve certain problems that are not usually encountered by the other classes of distributers.

Because of this inclusive nature of the problems of the manufacturer in developing the efficiency of his selling organization, our consideration of the selling campaign will have particular reference to the situation of a manufacturer whose products have national distribution and whose methods are typical of the activities of modern large-scale manufacturing industries. It should be borne in mind, however, throughout the discussion, that many of the manufacturer's methods are applicable as well to the solution of the problems of retailers and jobbers, and that the fundamental principles of selling efficiency are universal throughout the entire merchandising field.

80. *Two chief factors in selling campaign.*—We have seen that the many variations in sales department organization make it impossible to consider any particular organization in all its details as typical of any class of distributers. There is one feature of selling organization, however, that is so general that it can fairly be considered as typical. This feature is the supervision of a number of salesmen by some one whose duties are those of a sales manager. The supervisor of salesmen may be the proprietor, the general manager, the merchandise manager, the superintendent of salesmen, or he may be an assistant to any of these officials. His title and general functions are immaterial. If his duties include the supervision of salesmen, however, he is properly a sales manager in the sense in which that term is usually understood, and he is to be so considered in any discussion of selling campaigns. This sug-

gested elementary selling organization does not apply to the case of the manufacturer or dealer who reaches his market exclusively through the mail-order method of distribution. The strictly mail-order houses, however, are relatively few in number, and in their case the efficiency of the selling organization is synonymous with the efficiency of the advertising department. Accordingly their problems are not within the scope of our present discussion.

Because the common form of selling organization is that in which a sales manager directs the work of several salesmen, we shall consider the problem of developing sales department efficiency first from the standpoint of the sales manager, and then from the standpoint of the salesmen themselves.

81. *Qualifications of a sales manager.*—There are four general qualifications of a successful sales manager—he must have all the qualifications of a successful salesman, he should have had actual experience in selling, he must possess executive ability of a high order, and he must have complete knowledge of the business and be able to use that knowledge successfully in promoting the efficiency of the selling organization.

There is an established principle, which is only emphasized by the few exceptions to it, that no one can successfully direct others in any activity in which he himself does not excel. Certainly the most successful sales managers are drawn from the ranks of successful salesmen, and it is perfectly proper that this should be so, for two reasons. In the first place no executive can fully appreciate the problems of personal salesmanship or be able to give assistance in their solution unless he has faced the same situations that the salesmen have to face in their daily work. In the second place, even if it

were possible for a sales manager to secure a thorough knowledge of salesmanship without any actual experience in the field, he would have difficulty in inspiring confidence in his ability among the members of the selling force if they did not know that his instructions were based upon wide experience and an intimate knowledge of the details of their activities. The qualifications of a successful sales manager that are identical with the qualities of any successful salesman will be considered in a subsequent chapter. For the present we shall consider only those qualifications that differentiate him from the salesmen who have not managerial ability. These are, in general, executive ability and a detailed knowledge of the business. It is by developing these qualities to the utmost that he can be of the greatest service in increasing the efficiency of the selling organization.

To the extent that the sales manager has a part in the determination of policies and the development of plans for the general advancement of the business, he must have the qualities that are essential in any executive officer. He must be broad-minded, imaginative, far-sighted, shrewd, logical, and determined. We are not so much concerned with this phase of his activities, however, as with his control over the members of the selling force. In his capacity of director of salesmen he must endeavor to reach the maximum efficiency in each of the three following classes of his general duties:

1. Selection of salesmen
2. Training of salesmen
3. Supervision of salesmen

82. *Selection of salesmen.*—After the selection of selling methods and the determination upon a plan of

sales department organization, the first executive duty of a sales manager is the selection of his selling force. Success in this depends on a knowledge of human nature. Many sales managers are unable to analyze their reasons for the acceptance or rejection of a candidate for a position on their force; they apparently decide for or against a man by whim, but if they are fortunate in their selections, they unconsciously apply their knowledge of what a salesman must and must not be. Because a knowledge of human nature is the most important factor in determining the fitness of an applicant for a position as salesman, it is impossible to lay down rules for the guidance of the sales manager in this difficult field of his activities. There are, however, a number of more or less mechanical means of finding out certain important things about an applicant, and these the sales manager can use to determine the advisability of granting a personal interview or to assist him in "sizing up" the candidate who may have made his application in person.

83. *System as an aid in selection.*—Every business house that has a large selling organization is constantly receiving applications from people who want to enter its employ as salesmen. The number of these applications necessitates the adoption of some system to insure the promising candidates' being given a chance to demonstrate their ability and to weed out those whose personalities or records do not entitle them to further consideration. Most large houses have a printed form of application which every applicant for a selling position is required to fill out, usually before an interview is granted. The application form may require the applicant to give such items of information as the following:

Name.
Address.
Age.
Married or single?
Name, address, and business of present employer.
Capacity in which applicant is employed.
Present salary or yearly commissions.
Reason for wishing to leave present employment.
Is applicant willing to have present employer communicated with?
Territory in which applicant has had selling experience.
Has he sold goods to consumers, retailers, or jobbers?
Is any particular territory desired?
Will any other territory be considered?
When can applicant begin work?
Does he use intoxicating liquor?

In addition to information of the above character, the candidate is usually required to give a full history of his past business connections. He may be asked to give the following data about each position he has held: exact dates covering the period of employment; name, address, and business of employer, and capacity in which the applicant served; name and present address, if it can be given, of his immediate superior officer; reason for leaving the position. The applicant is also asked to give the names and addresses of several responsible individuals who are in a position to give information regarding his character and general fitness for the position for which he is applying. When an application form has been filled out, it comes to the attention of the sales manager or his assistant. If the experience of the applicant makes further consideration advisable, and if his answers to the questions are satisfactory, letters are then sent to his personal references and to as many of

his former employers as it may seem necessary to communicate with. Printed forms are sometimes used for this purpose, with definite questions and spaces for answers. When this is done, the questions may be of the following nature:

How long have you known the applicant?

Are you related to him in any way?

Has he worked under your supervision, and, if so, in what capacity?

Were his duties satisfactorily performed?

Is he honest —— energetic —— has he initiative —— does he obey orders?

Have you ever heard of his using intoxicating liquors to excess?

Do you consider him fully qualified for a position as salesman with this house?

Please give any further information concerning the applicant that may assist us to determine his fitness for our work.

When replies are received from all the references, they are attached to the original application form, and the entire file once more comes to the attention of the sales manager, who must determine whether the applicant is to receive further consideration. If there is anything unsatisfactory about the applicant's character or record, he is usually advised that the house has no position that they could offer for his consideration. If his papers are satisfactory, one of two things may happen. There may be no vacant position at the time, and in that event he is so informed, but he is also told that his application has been favorably considered, that it will be placed on file, and that if a suitable opening develops, it will be brought to his attention at the proper time. In the event that a position is vacant when the application

is received, the candidate whose papers have made a favorable impression is almost invariably requested to call for a personal interview.

The written statements of the candidate regarding his own qualifications, and the statements of those with whom he has had business and personal relations, are important and helpful in assisting the sales manager to reach a decision regarding his fitness, but they are ordinarily not to be relied upon exclusively in determining his availability for an important position. Salesmanship must always be largely a matter of personality, and personality is something that most sales managers insist upon judging for themselves.

84. *Personal interview.*—In the personal interview the sales manager can not rely on rules or mechanical means for judging the candidate's fitness. The strength and weakness of the applicant must be brought out by skillful questioning, and the main reliance of the sales manager must be upon his ability to judge human nature—an ability which is so large a part of the equipment of every successful executive. As far as possible he must ascertain whether the candidate possesses the qualifications essential to successful salesmanship. These are to be considered in a subsequent chapter. Some of them can not be discovered in an interview and are displayed only in the actual work of the salesman, while the presence or absence of others can be discerned by the experienced sales manager in his conversation with the applicant. What may be termed the external characteristics that may enter into a manager's judgment of a candidate for a selling position are noted in the following sections.

85. *Appearance.*—There are two factors in appearance—clothes and physical characteristics. It is said

that salesmen as a class are better dressed than any other group of business men. They have to be; their business demands it. They are constantly trying to influence others. When a sale must be effected in a short time or not at all, the influence of the salesman depends partly on the first impression that the buyer receives of him, and clothes are an exceedingly important factor in first impressions. Then, too, the buyer unconsciously judges the principal by his representative. Good clothes indicate prosperity, and the employer certainly wants his representatives to create the impression that the business is prosperous. For these and other reasons, a shabby salesman is an anomaly. If a salesman appreciates the relation between good clothes and success in his calling, it will be apparent to the sales manager when he interviews the applicant; and if a man does not present a neat and attractive appearance at a time so important as when applying for a position, he certainly will not do so when he is out "on the road." The second factor in appearance is physical characteristics. Ill-health, intemperance, over-indulgence in any form, and the other physical characteristics that are fatal to success in salesmanship, leave their imprint upon the features and general appearance of a man. The sales manager should know the sure signs of such characteristics, and he should use the personal interview to determine whether or not they are present in the applicant.

86. *Conversational ability.*—A salesman must be able to express his ideas tersely and convincingly. If an applicant for a selling position is not able to sell his own services by his "selling talk," he ought not to be trusted to sell merchandise.

87. *Force.—General information and intelligence.*—A successful salesman must be forceful, and able to im-

press the customer by his magnetism. This is a quality that can be readily ascertained in a personal interview. The sales manager should direct the conversation into a variety of channels to the end that he may ascertain the applicant's breadth of view. The salesman who knows his line and nothing more is not a high-grade man. The most successful salesman is the one who is capable of approaching a customer from his "blind side"—that is, gaining a customer's confidence by showing an intelligent interest in that which particularly interests him.

CHAPTER IX

METHODS OF TRAINING SALESMEN

88. *Training of salesmen.*—After the salesmen have been selected, they must be trained in the methods that the sales manager wishes them to use. The training of salesmen is the second important branch of a sales manager's duties in which he must perfect himself in order to raise the efficiency of the sales department to the highest possible point. This training varies widely in different cases. The man who has had successful selling experience does not need the elementary training in the principles of salesmanship that the novice requires. Likewise if the article to be sold is simple in construction and use, the necessary familiarity with its selling points and their proper presentation can be acquired more easily and quickly than would be possible if the article was more complicated and difficult of presentation. For instance, the average salesman with selling experience would require less training to enable him to sell laundry soap than to sell such a complicated piece of mechanism as an adding-machine.

Then too there are wide variations in the degree to which sales managers realize the possibilities of training for their selling force. There are still some sales managers who think that the only equipment a new salesman needs is "a sample case, a route list, and the parting injunction to keep down his expense account," as some one has aptly expressed it. It is needless to say that this method is not the one that makes for the greatest

efficiency in the selling organization. The modern method is to train the machinery salesman, for example, as carefully as the man who makes the machines. Competition has become so severe in all lines, advertising has so generally educated the public with respect to processes, prices, and quality, that goods can no longer be sold simply on the personality of the salesman. Special training for his work is now generally recognized as being necessary.

In order to present all the possible methods of training salesmen, we shall consider a program that is designed to give to a man who has not had any selling experience, but who has the necessary natural qualifications, the training that is needed to enable him, with reasonable hope of success, to undertake the sale of an article that requires extensive study and thorough knowledge on the part of the salesman. It is the duty of the sales manager to provide this training, either in person or by the aid of assistants, and upon the success of his efforts the efficiency of the selling organization will largely depend. The complete training that is required in the case to which reference has been made, may be divided into three parts:

1. Training in principles of salesmanship.
2. Training in construction and uses of the article to be sold.
3. Training in special selling methods that are peculiarly applicable to the article.

89. *Training in principles of salesmanship.*—Salesmanship is as old as the human need for acquiring something possessed by another. We do not know at what period in the progress of the race each individual or family ceased to be wholy independent of others, but it is certain that barter or exchange is one of the oldest of

human activities. There is, therefore, something that might be called a trading instinct innate in almost every one. Until a comparatively few years ago it was contended that if this so-called selling instinct was sufficiently strong in a man, he could become a good salesman with no other training than that obtained in the school of experience; and that no one else could hope for success in selling. The opponents of the modern idea that there is a science of salesmanship maintained that "a salesman is born and not made." They pointed out that the world's goods had been sold for many centuries without any attempt at scientific selling education, and held that this was sufficient proof of the futility of introducing any innovations in a world-old vocation.

But even though a man may be born with a certain tendency, it does not follow that he can not develop his natural bent by proper schooling. This is the position of the advocates of scientific selling. They admit that success in salesmanship depends partly on the possession of certain natural endowments, but they insist rightly that it also depends, and to a far greater extent, on the degree to which these endowments are developed. This development may come through experience alone, or it may come through training preceding the experience. Formerly experience was the only school of salesmanship. Its advocates tried to prove its efficiency by pointing to the success of its pupils. It has never been proved, however, that any salesman, no matter how successful, could not have been more successful if he had had the advantage of special training in his profession.

The old method of leaving every salesman to find himself without assistance from others was tolerable in a day when competition was not as fierce as it is now. It is intolerable under present conditions, because it is

distinctly wasteful. An inexperienced, untrained salesman is bound to make mistakes that are costly for his employer. If some of these mistakes can be avoided by giving him training in the principles of salesmanship before he is permitted to face actual customers, it is certainly to the financial advantage of his employer to give him this training.

The possibility of training in the art of selling is dependent on the fact that there is a science of salesmanship. Science is merely organized knowledge. Therefore the science of salesmanship is the logical arrangement of the things that are known about selling. In training his salesmen in the principles of salesmanship the sales manager must draw from his own experience and from the experience of others the facts and principles that are generally recognized as fundamental in selling, and he must present this material in logical, organized form. The number of things that are known about the psychology and practice of selling are constantly increasing. The literature of salesmanship is growing rapidly. The possibility of giving practical, definite instruction in selling has been proved. The progressive sales manager takes advantage of all the methods of instruction that modern investigation and interest in the subject of salesmanship have developed for him, and he rightfully considers that no part of his duties is of more value in increasing the efficiency of his organization than his share in the education of the salesmen in the principles that are fundamental in their work.

90. *Training in construction and uses of goods to be sold.*—The second branch of the training that the modern sales manager provides for his salesmen is in the construction and uses of the article or articles that are

to be sold. Manufacturers of cash registers do not send out new salesmen until they are perfectly familiar with every important detail in the construction of the machine, until they are skilled in its operation, and until they know all the uses to which it may be put. Manufacturers of automobiles insist that their salesmen shall have an absolute knowledge of the car they are to sell before they are permitted to approach possible purchasers. Goods are sold now-a-days not so much because the salesman has an attractive personality as because the salesman is able to prove that it would be to the buyer's advantage to purchase them, and it is obvious that the salesman can be successful only by knowing every detail about the goods that could have any possible bearing on their utility to the purchaser.

A selling talk is simply a skillful arrangement of selling points, and selling points are simply the things about the goods that the salesman thinks are of interest to the "prospect." Knowledge of his line is one of the fundamental qualifications of the successful salesman. Unless he is given opportunity to acquire this knowledge before he faces actual customers, his efforts are certain to be less successful than complete knowledge from the start would have made them.

91. *Three methods of training salesmen.*—There are three methods by which a sales manager can provide training for his salesmen in the goods they are to sell. The method that he selects depends on the nature of the goods and the extent to which he is willing to invest capital in the salesman's education before the salesman is actually set to work. The three methods are as follows:

1. A conference or series of conferences between the sales manager and the salesman, in which the construc-

tion and selling points of the article to be sold are carefully considered in all their aspects. This verbal instruction may or may not be supplemented by printed descriptions of the article and its selling points.

2. A visit to the factory so that the salesman can actually see the article in process of production, and learn at first hand the quality of the constituent elements and of the final product.

3. A period of actual employment in the factory for the new salesman, so that he may become familiar with every part and process.

92. *Employment in the factory best method.*—Of these three methods the last is obviously the most thorough and far-reaching in its results. It has such marked advantages that it is being employed by a constantly increasing number of progressive manufacturers, and it is certain to play a larger part in the training of salesmen in the future than it has in the past. The thorough familiarity with the article that can be acquired by actual participation in its construction has two results:

First, it enables the salesman to talk intelligently and to be sure of his ground even when he is attempting to sell to a buyer who himself has an exact technical knowledge of the article he wants to purchase.

Second, it gives a salesman confidence in his knowledge and in the article he is to sell. It gives him an enthusiasm for his line that can not be dispelled by any number of complaints from customers or temporary faults that may develop.

The man who has gone to the selling force from the shop is in the strongest possible position to advance the interests of his employer. If his training in construction and in selling are equal, he can talk mechanical

points intelligently to the buyer who is interested in and who knows that phase of the subject; and he can talk usefulness, durability, and money-saving qualities to the man who is not interested in mechanics. He can make repairs when repairs are necessary. In short, he is in a position to prove to purchasers in countless ways that he knows what he is talking about, and there is nothing that is so calculated to inspire confidence on the part of possible purchasers as the demonstrated and detailed knowledge of the salesman about the article he is trying to sell.

In the sale of many goods it is impossible and unnecessary for the sales manager to provide a course of instruction in the factory for his salesman; but in any line and in any branch of merchandising a thorough knowledge of the goods that are to be sold is the one quality that is most helpful in securing for a salesman the confidence of his employer and of his customers.

93. *Training in selling methods.*—The third branch of training that the sales manager should provide for his selling force is in special methods of selling that are peculiarly applicable to the article that is to be sold. The principles of salesmanship are the same under all conditions, but their application varies with the commodities that are sold. The life insurance solicitor does not use the same methods as the salesman in a retail store, and the methods of the wholesale grocer's salesman are not the same as those of the man who sells locomotives to a great railway. The successful sales manager of every business house ought to know the best methods of selling the goods that he has to distribute, and he ought to train his salesman in those methods.

It is true that the man who possesses the qualifications of successful salesmanship will in time if left to

himself, find out the methods that are most helpful in disposing of the goods he is called upon to sell. But organized efforts at giving him this knowledge before he faces actual customers are economical of his time and energy and are distinctly advantageous from the standpoint of his employer.

94. *Standard selling talks.*—In a typical case this training is provided, first, by requiring the new salesman to learn a standard selling talk. The theory of the standard selling talk is that for any given condition there is one best way of approaching the customer and of presenting the selling points so that they will have the maximum effectiveness. It is not intended that this standard selling talk shall be used indiscriminately in all situations. A salesman is not a machine, and he can not sell goods by simply repeating, parrot-like, a selling talk that some one has prepared for him. It is of great advantage to him, however, to be grounded in methods of selling that have been proved successful, and that he can adapt to the particular problems that he has to meet. A sales manager of experience knows the best method of approaching the possible purchaser, he knows the "pulling power" of the various selling points and the most effective order in which they can be presented, he knows the objections that have to be met, and he knows the best means of meeting them. It is to be expected that he would be in a better position to embody these various points in a strong selling appeal than the new salesman who has not had the sales manager's experience. One of the great advantages of the standard selling talk is that it phrases the selling points in an effective manner.

Every salesman will in time develop for himself the method of impressing selling points upon customers

that seems best adapted to his personality and to the particular individuals to whom he tries to make sales. When he is new at the work, however, he has not had the experience to guide him in suitable expression of the points he wants to make, and he can advantageously use the words of others who, by careful study and experience, have evolved effective statements of the more important things that the salesman ought to say.

Another advantage of requiring a salesman to memorize a standard selling talk is that he is thereby provided with a fund of effective phrases that he can draw upon when for any reason he is unable to give spontaneous expression to his own ideas. In every salesman's experience there are hours and sometimes days when "his personality does not seem to be working up to normal"—when he finds himself incapable of expressing ideas quickly and well, and when his mind is not so active as at other times. This may be due to temporary ill-health, to mental moods, or to any of a number of other causes. At such times, under former conditions, the salesman ceased work and waited for a return of the inspiration that he thought essential to success in his activities. If he has stored away in his memory a stock of phrases and arguments, worked out for him in logical, effective form, they will unconsciously come to his aid, and will enable him to make sales even though his work may not be as expressive of his individuality as is customary and desirable. This is not an argument for mechanical salesmanship. It is simply one method of insuring the highest efficiency of the selling force by giving the salesman a sure foundation for the development of individual methods, and by providing him with a thorough knowledge of general princi-

ples and methods of proved effectiveness that he can adapt to his individual needs.

95. *Adaptation of standard selling talks.*—After a salesman has mastered the standard selling talk, he is usually given an opportunity to learn how to adapt it to a great variety of customers under conditions where his mistakes will not be so disastrous to himself and to his employers as they would be if he were left to secure his training in selling by actual contact with real purchasers.

An extreme method of training in adapting the selling talk to individual classes of customers is illustrated by the school for salesmen that is maintained by one of the largest specialty manufacturers in the country. The product of this manufacturer is a mechanical contrivance for use in all kinds of retail stores. The "school-room" is divided into sections, each one of which is fitted up with the fixtures and stock that are typical of one of the important classes of retail establishments. In charge of each miniature store there is a man who enacts the rôle of proprietor or of buyer and who has had actual buying experience in the line that he represents. The embryo salesman is required to enter each of these little stores in turn and to make mock sales to the buyers, in each case adapting the standard selling talk to the peculiar conditions in the store and to the personality of the man with whom he is dealing. There is the closest possible approach to actual conditions in the field, and the effectiveness of the system of instruction is proved by the success of the salesmen who graduate from this "school."

96. ***Meeting problems peculiar to a business.***—Some modific[illegible]n of this method of giving training in actual selling [illegible]n use by a great many modern merchandis-

ing establishments of all kinds. The great retail stores, like the manufacturers, all over the country are recognizing the value of teaching their new sales-people how to meet the problems that are peculiar to their individual businesses. Jobbers as a class have been the last to see the advantages of the new methods, but many of them also are now giving their attention to methods of training their salesmen for greater efficiency. If a jobber carries an extensive line of articles, his problem of training salesmen is a difficult one, because of the practical difficulties in the way of giving the salesmen an exact knowledge of all the goods they are to sell. The solution of this difficulty seems to be found chiefly in a multiplication of the number of specialty salesmen, each one of whom handles only a limited line with which he can become thoroughly familiar. The small, general jobber, it is true, can not afford to adopt this method, but the wholesaler that covers a wide territory and employs many salesmen can well afford to consider carefully the advantages of specializing the work of the salesmen so that each one may have an intimate acquaintance with all the essential features of every article that he handles.

Training in selling should not cease with the graduation of the salesman from the "school of salesmanship." The most successful sales manager is the one that loses no opportunity to give the salesmen definite, practical instruction in principles and methods. One of the greatest selling organizations in the country frequently revises its standard selling talks and requires all its salesmen, under pain of dismissal, to memorize every revised statement of selling points and arguments. Every communication between the sales manager and his men should be designed to assist the salesmen in their

activities. Every convention or gathering of salesmen should give them new aids in their work. Its program should include talks by authorities on important principles of selling, and demonstration sales by picked salesmen for the purpose of bringing out new ideas and methods.

III—8

CHAPTER X

SUPERVISION OF SALESMEN

97. *Sales manager's duties.*—The third great field of activities in which the sales manager must endeavor to reach maximum efficiency if he is to do all in his power to increase the efficiency of the selling organization, is the supervision of salesmen. Many of the problems of supervision are closely allied with the problem of training salesmen. With the exception of some more or less mechanical details of selling supervision that will be considered later, the sales manager's chief duties of a supervising nature are to assist the salesman in individual sales and to encourage him in his general activities.

98. *Supervision over particular sales.*—Some of the ways in which assistance can be given in particular sales are as follows:

1. Personal visit of the sales manager to the scene of the sale and the joint efforts of manager and salesman upon the customer.
2. Letters of instruction to the salesman.
3. Personal letters to the customer.
4. Advertising matter sent to the customer.
5. Assignment of other salesmen to help in the sale.

99. *Supervision over general activities.*—Encouragement to the salesman in his general activities may be given by the sales manager in a variety of ways. Some of them are as follows:

1. Personal interviews either at home office or in field.

2. Letters of advice, encouragement, and constructive criticism.

3. Competitive schemes to encourage the salesmen to unusual efforts for certain periods.

4. Publication of a house-organ.

5. Sales department conventions.

100. *Personal interviews.*—Many salesmen operate directly from the main office of the company where the sales manager makes his headquarters, and in such cases personal interviews between manager and salesmen are frequently arranged. Each salesman makes his report personally to the sales manager at the end of every trip, and he has plenty of opportunity to secure all the assistance he needs in solving the problems of selling in his territory. In many large organizations, however, some of the salesmen's territories are located at a distance from the main office, and the salesman has no occasion to come in to headquarters unless the sales manager sends for him. It is advisable for distant salesmen to be called in for conferences with the sales manager at intervals so that they may receive the advice and encouragement that is essential to highest success in their work, and that the manager may learn directly from them the conditions that exist in their territories with respect to the sale of the goods of the house.

It is just as important for the manager to make frequent trips to salesmen's territories as it is for the salesmen to visit the home office. Salesmen's reports are exceedingly valuable in giving the manager a knowledge of conditions in the field, but they can never entirely take the place of actual first-hand observation by those who are responsible for the company's policies.

Retail establishments and city selling organizations have a great advantage in this respect, because constant personal contact is possible between the sales people and those who direct their activities.

101. *Keeping in touch with salesmen by letter.*—When a sales manager is separated from his salesmen, he should make it a point to keep in close touch with them by letter. Their reports form the basis for his letters of advice and encouragement. If criticism is necessary, it should be given in a manner calculated to increase rather than to decrease the salesman's efficiency. Salesmen are often exceedingly sensitive; their work is exacting and makes great demands upon their store of nervous energy. If they have been doing their best, but have not been producing normal results, they expect and need encouragement rather than criticism. There is nothing that can so effectively destroy the efficiency of a conscientious salesman for a day or a week as a sharp, fault-finding letter from his manager. If he has been derelict in his duties, it is necessary for the sake of discipline that he be reprimanded, but the reprimand should be carefully phrased. There is possibly no phase of a sales manager's duties in which he is called upon to exercise more tact and real executive ability than in his letters to his men. His one purpose is to increase sales, and in every letter he should have in mind its ultimate effect upon the productiveness of the salesman.

102. *Competitive schemes to promote selling efficiency.*—Many houses use competitive schemes of various sorts, with or without prizes, to stimulate the salesmen to unusual efforts. If a special sale is in progress on any article, some retail dealers offer a cash prize to the sales-person making the most sales of that article during the special sale. Jobbers and manufacturers

frequently encourage special efforts by offering cash or other prizes for the largest total sales or for the largest sales of any particular commodity during a given period.

One of the most generally used methods of keeping salesmen at the point of highest working efficiency is known as the quota system. The principle at the basis of the quota system is that a salesman will work harder to produce a definite result that he knows is expected of him that he would if he had no specific goal in view. The quota system is applied in a variety of ways, but a typical one is as follows: At the end of each month's business the sales manager determines upon a certain volume of sales that is fair to expect from each salesman during the succeeding month. This is known as the sales quota. The quota for each salesman is determined separately, and the manager's decision is based upon a careful consideration of past results in the salesman's territory, present local conditions that might affect sales, and selling and advertising plans of the company that might have a bearing on the sales to be expected during the quota period.

It is evident that even though it is determined after a most careful consideration of all pertinent conditions, a quota must finally be largely arbitrary in character. This fact does not lessen the efficacy of the system, provided the salesmen know that the same general principles are applied in determining the quotas for all territories. The more or less arbitrary nature of the quota works no injustice to any one salesman if the methods of determining it are the same in all cases. Each salesman is informed of the quota that has been set for him for the ensuing month, and he is urged to do all in his power to reach the mark and to pass it. The result of his activities for the month are usually shown by

a percentage. If his quota for gross sales is $2,000, and if he sells $1,500 worth of goods, his percentage for the month is 75. If he sells $2,500 worth of goods, his percentage is 125. The quota may be expressed in dollars, in individual articles, in cases of goods, or in any other way that suits the particular business under consideration.

In the case of a general jobber or manufacturer whose salesmen handle a large line of goods, it is difficult to determine a quota satisfactorily expressing the relative importance of all the lines in the total sales. This is done, however, in some cases by setting a separate quota for each of the different classes of goods handled. It is then necessary to determine the relative importance, from the standpoint of the house, of the sales in the different classes.

It may be the policy to push one line and to sell only enough of another to supply the demand. The relative importance of the different classes of articles is represented by numbers. The class of least importance may be represented by the number 1. The sale of another class may be considered to be twice as important as that of the first; therefore the importance of this second class is represented by the number 2; and so on. Suppose, for example, that a salesman has a quota of 1,000 for sales of goods in class A. If he sells 900, his percentage in that class is 90. If the relative importance of that class is represented by the number 3 (which is called the "weight" number), this percentage of 90 is multiplied by 3, and the product, 270, is added to other products similarly obtained in all the other classes.

The following chart shows the method of determining a salesman's final monthly percentage when he handles four different classes of goods whose sale is considered

by the house to be of varying degrees of importance, and when separate quotas are set for each class:

Class	Quota	Sales	Class percent	Weight number	Product obtained by multiplying class percent by weight number
A	1,000	900	90	3	270
B	400	440	110	1	110
C	200	200	100	3	300
D	300	225	75	2	150
				9	830
			Final monthly rating		92.2%

The final monthly rating is found by adding all the weight numbers and then by adding all the products in the last column. The sum of the products is then divided by the sum of the weight numbers, and the result is the final monthly rating.

The quota system is of chief value when it is competitive. It is not necessary to let any salesman know the quotas and total sales of the others, but it is frequently advisable to publish all the final monthly ratings so that each salesman can see how the results of his efforts compare with the results of others. The effectiveness of such a competitive system is surprising. Salesmen work harder to rank a few points above their fellows than they do when the only incentive is larger commissions on increased sales. The love of a game is innate in human nature, and any system that makes a game out of business, that gives the salesmen an opportunity to compete with their fellows for precedence on the ranking list, seems to bring results that are entirely disproportionate to the small amount of time and labor that are required to maintain even a complicated rating system. If cash or other prizes are offered for precedence on the list, the incentive to head it is, of course, greatly increased.

103. *House-organs.*—Many sales departments pub-

lish house-organs to keep the sales officials in touch with the salesmen, and to cultivate in the selling force an *esprit de corps* that is valuable in promoting united effort toward a common end. A house-organ of this kind usually contains items on salesmanship, "ginger talks" by the sales manager, and general news of the house. It is, in addition, an effective medium for the publication of the relative rank of the salesmen as determined by their monthly ratings. The development of this method of keeping the salesmen in close touch with the house is one of the marked features of modern merchandising. Some house-organs are published daily, others weekly, and others at longer intervals.

104. *Selling conferences.*—Sales department conventions are widely used by selling organizations whose members work in widely separated territories and do not come into frequent contact with one another or with their sales manager. The salesmen are called together for conferences at certain intervals, either at the factory, the home office, or at some centrally located point. These conferences may have one or more of the following purposes:

1. To promote a feeling of unity among the men. The salesman working in a definite territory, where he seldom comes into contact with other representatives of the house, is likely to forget that he is part of an organization all of whose members are working toward the same end. A periodical meeting with his fellow salesmen tends to increase his efficiency and to develop in him a spirit of co-operation with all those who are selling the same line of goods.

2. To arouse enthusiasm. The man who is working in an isolated territory, and who seldom comes into touch directly with his superiors, has a tendency to get into a

rut and to make his work mechanical. A conference with others working along the same line gives him new points of view, and the talks by the officials of the company whom he meets at the convention arouse his enthusiasm and a determination to redouble his efforts when he returns to his territory.

3. To encourage the interchange of ideas among the men. No one salesman in any business has a knowledge of all the selling schemes that he might use to advantage. Each one can learn from the others plans that have worked, as well as plans that have failed, and this information can assist him in his own work.

4. To continue the specific training of the salesmen in their general duties, and to instruct them in new selling methods and in plans of marketing new articles that may be placed upon the market. Sales demonstrations and technical talks by selling authorities have an important place in sales department conventions. In addition, such conferences are valuable means of imparting to the salesmen first-hand instruction in new products and new selling methods.

105. *Other duties of sales manager.*—We have found that the chief duties of a sales manager with respect to the supervision of the salesmen are to give them assistance in individual sales and to encourage and help them in their general activities. These, of course, by no means comprise all his duties of a supervising nature. Among the multitude of things that engage his attention, three others stand out prominently. He must determine upon suitable methods of compensating his selling force, he must assign territories, and he must adopt satisfactory methods of keeping in touch with his salesmen.

106. *Compensation of salesmen.*—There are three

principal methods of compensating salesmen without taking into consideration the question of allowances for traveling and other expenses. They are: commission, salary, and a combination of commission and salary. There are many high-grade salesmen who refuse to work on any other than a commission basis. They are so confident of their ability to produce results that they insist on having their compensation measured directly by the amount of their sales. There is no question that there is a greater incentive for an efficient man to work harder for a commission than for a salary. The commission method of payment, however, has one disadvantage. The salesman feels that he is more his own master than when he is working for a salary. He has a keen interest in increasing his own immediate earnings, and he is not always willing to follow a policy that means the sacrifice of large total sales for the moment even though the purpose of the policy may be ultimately to increase the business in his territory.

In some sections of the country wholesale grocers' salesmen are paid entirely by commission on the profits resulting from their sales. Naturally they are interested only in the sale of goods that carry a long profit. It is sometimes to the advantage of the jobbers to push the goods of manufacturers whose products may not carry the maximum profit but who recognize the jobbers as their exclusive distributers and who expect the support of the jobbers in return. In such cases the wholesale dealers have no means of forcing the salesmen to push the goods they want pushed, except moral persuasion and the fear of discharge. Neither of these means is particularly effective in the case of the competent salesman who has proved his ability to make profits for his employer and for himself.

The salary method of compensating salesmen is usually employed when the salesmen are required to give part of their time to other than strictly selling duties—when, for instance, they are called upon to act as "missionaries," to cultivate friendly relations with the trade, to investigate and report on local conditions, to enlist the support of all the factors in a contemplated selling campaign, and to do any of the other numerous duties that frequently fall to a salesman's lot, which are not immediately effective in increasing the total volume of any individual's sales. Of course the broad-minded salesman, even when he is working on commission, is willing to give a certain amount of his time to such duties, but when they form a large part of his activities, the best results are usually secured by placing the salesman on a salary basis. In cases of this sort many houses guarantee a sufficient salary with proportionate increases in accordance with the increased total sales in the territory. New salesmen are almost always given a minimum salary, which they are able to supplement by commissions on sales in excess of an agreed upon amount.

107. *Salesman's expenses.*—The question of salesmen's expenses is closely connected with the question of compensation. If a house pays the traveling expenses of its salesmen, it is necessary to have the expenses reported at frequent periods and in detail. They must be carefully watched by the sales manager, because traveling expenses often form a considerable part of the total selling costs, and the profits on large total sales are liable to be dissipated by excessive costs of selling. It is obvious that the item of expenses is one that is difficult to audit. Unfortunately some salesmen permit their moral sense to become a bit blunted when they re-

port their expenses to the house; they are not always too careful to report the exact amounts that they have expended in the interests of their employer. The problem of obviating the possibility of padded expense accounts is a difficult one for the sales manager to solve.

Hotel bills, railroad fares, and sundries, are the three general classes of expenses incurred by a traveling salesman. Some houses fix a definite amount which a salesman is permitted to spend each day for room and meals. When this is done, the salesman will seldom report less than the maximum amount, but the system is often preferable to having no maximum at all. Since railroad rates have been made uniform, the item of transportation expenses is easily checked by requiring the salesman to show the number of miles covered in each railroad journey together with the cash fare or mileage collected, and by checking up this data with an office file of railroad guides and tariff sheets. The item of sundries is the most difficult of all to audit. In many cases charges are permitted under this heading only for certain specified purposes. If a salesman is allowed to "buy business" to any extent at all, his tendency toward extravagance in this direction may be checked by requiring him to itemize even the smallest expense that is incurred. But the idea that a customer has to be entertained in order to get his business is happily going out of fashion, and with its complete disappearance will vanish one of the greatest opportunities for a salesman to betray the confidence of the employer who entrusts him with an expense account.

108. *Assignment of sales territories.*—The assignment of territory is a question whose solution can not be governed by general principles. It depends on the nature of the goods to be marketed, the demand for them,

the population and area of the possible market, the extent and character of transportation facilities, the amount of competition, and the number of salesmen who can be employed. The first point to be decided is the number of times it is advisable to have each possible customer called upon during a given period. The territory is then divided so that this ideal can be most nearly approached under the existing conditions.

One large house that operates in a thickly settled portion of the country where transportation facilities are approximately uniform in extent and character, has adopted a certain amount of population as the unit for each salesman's territory. Territory boundaries follow county or state lines wherever that is possible without interfering seriously with the population unit. If a house were operating in the national field, it would be impossible to use the population unit exclusively, because a salesman who could easily and frequently canvass all the dealers in a district with 250,000 population in the East, for example, could not so easily cover a district with equal population in one of the sparsely populated western states.

109. *Keeping in touch with salesmen.*—We have already indicated some methods by which the sales manager keeps in touch with his selling force. His function of helping them in individual sales and in their general activities requires him to see them frequently in person, to correspond with them, and to instruct and help them with the aid of house organs and other publications. We are to learn that he is also to keep in touch with them through their reports.

In addition, various mechanical devices are used to enable the sales manager to know exactly where the salesmen are working and their methods of covering

their territories. Each salesman is usually required to send in a route list at the beginning of every week, to indicate his exact location on each day of the coming week. His movements are followed by means of this route list and his daily reports. Frequently a map and tack system is introduced to represent his movements graphically. His territory is charted on a map, and pins connected by a string are inserted in the towns that he has covered or is to cover, in their proper order.

110. *Knowledge of the business as factor in promoting sales department efficiency.*—The last important qualification of a successful sales manager is a thorough knowledge of the business in which he is engaged, and the ability to use that knowledge effectively in promoting the efficiency of the entire selling organization. By knowledge of the business is meant not merely an intimate knowledge of the personnel and policies of the house the sales manager represents or of the article or articles that his force of salesmen are to sell. All this is essential, of course, but it is also necessary for a sales manager to know every phase of the general line of business in which he is engaged. He must know his own line, and he must also know the lines of all of his important competitors. He must know what advertising they are doing, where they are making inroads upon his own business, what new methods they are using in the sale of their goods, new products that they may be offering, their regular prices and discounts, and, so far as possible, the special inducements they offer to individual customers. In short, the ideal sales manager is so familiar with the competitive field in which his salesmen operate that he is in a position to use the forces at his command to the best advantage possible.

The information that is necessary for him to have

about all phases of the business in which he is engaged may come to him through his own experience and observation and by reports from the office and from the field. The reports may be divided into three classes: credit, statistical, and general.

CHAPTER XI

REPORTS AND DUTIES OF SALESMEN

111. *Credit reports.*—In some cases the credit reports are initiated by the sales department. They are made by the salesmen on special forms prepared therefor, as part of their regular routine. When this is not the case, the credit reports come to the sales manager from the accounting and credit departments. They may show when a customer's bill is overdue, when his financial condition has been strengthened or weakened for any cause, or when there has been any change in his business relations which would interest the sales department. Selling and credits are vitally connected. A successful salesman never forgets that a sale is not made until it has been accepted by the credit department, and that time spent in getting a big order from a dealer with small credit is time wasted. Accordingly it is the sales manager's duty to transmit to the salesmen in the field all items of credit information that may be of interest to the salesmen in their relations with their customers.

112. *Purpose of salesmen's reports.*—The statistical and general reports that help the sales manager in securing a complete knowledge of the business may reach him directly from the salesmen in the field, or they may be prepared for his information from records in the office. The reports that come directly from the salesmen usually have the following purposes:

1. To enable the sales manager to judge the efficiency of the salesmen.

2. To enable him to know conditions with respect to individual customers as well as in entire territories, and thereby to anticipate and check a threatened or actual falling off in sales.

3. To keep him in close touch with all news of interest in the business.

4. To provide material for periodical statistical reports, which, in turn, are designed to give the sales manager the desired sales data in organized, convenient form.

In order to accomplish these four purposes, the data contained in the salesmen's reports is usually divided into two general classes: first, that which has reference to individual customers or possible customers; second, that which treats of general trade conditions.

113. *A typical salesman's report.*—In the typical case of a salesman selling a grocer's specialty he is required to call upon every retail grocery dealer in every town he visits. The blanks on his daily report form call for the following information about each dealer whom he interviews:

1. Name and address.

2. Which of the different sizes and brands of the goods handled by salesman are carried in dealer's stock, with approximate amount of each one on hand.

3. The important competing lines that are carried by dealer.

4. Complete statement of the items contained in the order if a sale is made.

5. If no sale is made, the probable reasons therefor.

6. The brands of goods in the general class handled by the salesman, which dealer reports as his first and second "best sellers."

7. Advertising matter left with dealer.

8. Advertising matter to be sent to dealer.

9. Dissatisfaction of dealer, if any, with the goods or with his treatment by the house, and suggestions by salesmen of methods for removing the dissatisfaction.

Information of this nature in the salesman's daily report enables the manager to picture with a fair degree of accuracy the conditions under which the salesman worked, and, to a certain extent, to judge the efficiency of the salesman in dealing with competitive conditions. This information also gives the sales manager a running record of the status of dealers' stocks and of any increase or decrease in competition, and it provides some of the material for periodical statistical reports that are compiled at the office.

114. *Salesmen must observe closely.*--To keep the sales manager sufficiently in touch with general trade conditions, the salesman has to develop his powers of observation and analysis to a high degree. Some salesmen's daily report forms contain definite space for the various classes of data desired. In other cases the sales manager prefers to receive this information in a general letter from the salesman. In both instances the salesman is usually asked to report all items of interest along the following lines:

1. New and important competition.

2. New advertising being done by competitors.

3. Changes in competitors' products and prices.

4. Apparent changes in demand.

5. Local business conditions that are likely to affect demand.

6. General attitude of customers toward the product of the house.

Information of this character, periodically received from the salesmen, and regularly passing under the inspection of the sales manager, should give the latter a comprehensive survey of the field in which the salesmen are working. It should show him, in the case of each customer, when there is a necessity for additional selling effort to protect business against the inroads of competitors, and when there seems to be an unusual opportunity to get new business in a town. In a general way the inspection of the salesmen's reports shows the sales manager whether sales are increasing or are falling off. The most important result of a careful, intelligent study of the salesmen's reports, however, is that it gives the manager an intimate knowledge of conditions which may be influential in causing a decrease in business, and this knowledge, to a certain extent, enables him to foresee a possible falling off in sales and to neutralize the unfavorable conditions by increased activity of the sales department.

115. *A typical statistical system.*—In the typical case that we have been considering the salesman's reports on his various visits to a town are summarized on a town record card. Each card contains spaces for records covering canvasses of the town during several years. The cards provide a compact exhibit of the condition of the company's business in every town which their salesmen have visited. For each canvass of the town the following data is summarized:

1. Date of canvass.

2. Number of dealers called upon.

3. Number of dealers carrying in stock each of the brands sold by the house, as well as brands of principal competitors.

4. Number of dealers reporting each of the various brands as "best seller" or "second best seller."

5. Number of separate sales made during the canvass and the totals of the different items included in the orders.

6. Advertising activities of competitors.

On the back of each town record card is entered a brief statement of all local advertising and selling campaigns conducted by the house that is keeping the record, in the town under consideration. Space is also provided for a monthly, quarterly, and yearly record of all shipments, by brands, of the company s goods to customers in that town.

In addition to the record of shipments on the town record cards, daily, monthly, quarterly, semi-yearly, and yearly summaries of shipments are prepared, showing sales by brands, by towns, by salesmen's territories, by states, by selling divisions, and for the entire country. Each of these statements is comparative; that is, it shows sales for the current year as compared with those for one or more years preceding.

The foregoing description of a statistical system is merely suggestive of the many ways in which the reports of the salesmen and the sales records may be utilized in the compilation of statements that assist the sales manager in knowing where trade is weak and where it is strong—in other words, in acquiring a complete knowledge of the business. With this definite knowledge he can apply the necessary stimulus to the business in the way of advertising and selling efforts with the greatest economy of time and expense. In small organizations the compilation of statistical data is one of the duties of the accounting department. In large organizations the statistics are often recorded and

compiled by a separate department with a skilled statistician at its head. The maintenance of an efficient statistical department is expensive, and it would have no place in a business organization unless its efforts were productive of larger sales and increased profits. That the compilation and intelligent use of statistical data has this result is evidenced by the increasing importance of the statistical department in large corporations.

116. *Salesman's part in promoting sales department efficiency.*—Thus far in the consideration of the selling campaign we have considered the problem of developing sales department efficiency primarily from the standpoint of the sales manager. The salesman, however, is as important in this movement as his manager, and in many of the methods that have been discussed the salesman's part is at least equal to that of the sales manager. In order to indicate the salesman's share in the development of sales department efficiency it is only necessary to state and to consider briefly the three aspects of his duties in each of which he should endeavor to perfect himself. He is ordinarily expected to do three things:

1. Sell goods.
2. Maintain the reputation of the house and to do all in his power to increase its prestige.
3. Observe and report items of information that are of interest to the sales manager.

The actual sale of goods depends on the salesman's practice of the principles of salesmanship. This is such an important factor in his efficiency that it is reserved for separate consideration in a subsequent chapter.

The salesman is the representative of the house that employs him. Many customers never see any member

of the house organization except the salesman who solicits their orders. It is natural, therefore, that the customer should receive his impression of the house from the salesman. Every successful business house has certain policies—methods of doing business, attitude toward its customers, business ideals—which are part of the personality of the organization and which it should cherish as carefully as an individual cherishes his reputation. The salesman should represent these policies. As an individual he should do nothing inconsistent with the policies of the house he represents. He should always remember that he is the house so far as the customer is concerned, and that it is in his power to do serious injury to his employer by an ill-considered word or action.

The third way in which the salesman can contribute to the highest efficiency of the sales department is by observing and reporting the trade conditions that are of interest and assistance to his manager. The general character of the reports that he is frequently required to make has already been indicated. Salesmen are sometimes unwilling to take the time and trouble to make accurate and complete reports; they look upon the requirement of detailed reports as an unnecessarily burdensome addition to their already difficult duties. This is a short-sighted and mistaken attitude. The salesman is a trade missionary; he must often wait a long time to see the results of his efforts. His ultimate aim is orders, but he must frequently get orders indirectly, and he should be willing to give all the assistance in his power to any movement that is calculated to increase the productiveness of his territory.

His accurate reports of important business conditions in his territory enable the selling officials to direct the

advertising and selling forces at their command in such a way that he will ultimately be able to book orders that might be unobtainable by his own unassisted efforts. Successful selling is more than mere personal contact between salesman and consumer. It is a linking up of a large number of forces, many of which are at least of equal importance with the salesman himself. Co-operation between all these forces is essential to the highest success in every form of distribution, and the salesman who refuses to recognize this fact, willfully limits his own efficiency and that of the selling organization of which he is a part.

CHAPTER XII

PRINCIPLES OF SALESMANSHIP

117. *Definition of salesmanship.*—There are so many phases of salesmanship, and so many ways in which it can be applied, that a satisfactory definition of the term is difficult of formulation. In a broad sense it is frequently used to indicate any method by which one individual attempts to influence another to take a desired action or to adopt a certain mental attitude. However, we are concerned only with commercial salesmanship. The essential feature of commercial salesmanship is an exchange of values; and the practice of commercial salesmanship is the attempt on the part of one person to induce another to accept ownership of a commodity for which something of value is to be given in exchange. This is a sufficiently satisfactory explanation of what salesmanship means, though it may not be a scientifically accurate definition. The chief purpose of all business is to make profits, and profits can not be made unless there is an exchange of values of some sort. In every industry or business or profession the sale of goods or services is the final aim, and because of this universal practice of the art of salesmanship, its principles are of importance to every worker in the business field.

118. *Who is a salesman?*—The man that practices the principles of salesmanship is a salesman. In order to come within this classification he does not need to face prospective customers in person. He is a salesman if he has any part in the sale of goods. The owner

of a manufacturing plant is a salesman if he shares in the formulation of selling policies. The president of a railroad company is a salesman if he exercises supervision over the sale of its services. The general sales manager of any organization is certainly a salesman if he directs the activities of those who finally face the customers; and so are his assistants and subordinates all the way down the line to the men that actually turn in the orders.

The efficient advertiser who uses advertisements to aid him in influencing people to buy his goods must practice the principles of salesmanship, and the man that can sell goods by mail without any direct personal contact with his customers is probably the highest type of the successful salesman. The manufacturer, the jobber, and the retail merchant are all salesmen irrespective of whether they actually sell goods themselves or simply direct the selling organizations that do dispose of their merchandise. The retail clerk may be just as good a salesman as the traveling representative of the jobber. Any one who sells goods or who in any way directs their sale is a salesman, and the word is also rightly applied to the promoter—the man who sells ideas, who organizes industries, and is successful in giving a market value to his mere hopes and expectations.

Everyone who engages in the activities of salesmanship in any way must, in a measure, practice the same principles and possess the same qualifications. In order to discuss these general principles and qualifications, however, it is necessary to have in mind an individual that may be termed the typical salesman. He is the man that meets his customers face to face, and upon whom the final responsibility depends for success or failure in the great majority of business enterprises.

His personal problems include those of all the other factors in selling, and his qualifications are the measure of those that all the others must possess.

Every selling method, every sales department organization must ultimately depend for actual results upon the man for whose guidance the selling methods have been adopted and the sales organization has been developed.

119. *Steps in a sale.*—Because personal, face-to-face solicitation of a customer is the most common form of salesmanship, and because it best illustrates all of the principles of the science, we shall discuss the problems of salesmanship with particular reference to a sale in which salesman and customer come into direct personal contact. The modifications that are necessary to adapt the general principles to other methods of selling will be clearly evident in most cases without any special reference being made to them. In every sale it is generally conceded that there are four distinct steps: attracting the customer's attention, arousing his interest, creating in him a desire to buy, and inducing him finally to take the action that is necessary to close the sale. It is not our purpose to consider in detail the methods of accomplishing these four steps, but rather to emphasize the importance of suitable training in the methods necessary to accomplish them by showing the connection between the steps in every sale.

120. *Attracting attention.*—It is not by chance that a possible customer gives his attention to the salesman who wishes to sell him something. The business man whose patronage is worth the most has no time to waste. He is frequently called upon to listen to many different salesmen's propositions every day, and he is often unable or unwilling to grant every demand upon his time.

In some establishments buyers make it a rule to receive salesmen at a certain hour and to give every salesman a hearing. In the majority of cases, however, the salesman does not have such easy access to the attention of the customer, and the buyer's attention can not be secured unless the salesman first directs his careful efforts toward that immediate end.

The method in each instance may differ; but, whether the fact is recognized by the salesman or the buyer, there is always some definite reason why the "prospect" gives the salesman his attention. It is not enough, however, that the salesman should secure the buyer's attention to himself. For the purpose of the sale, the only attention that is worth while is the attention that makes the buyer willing to talk business or to listen to the salesman's business proposition. The personality of the salesman rather than the attractiveness of his offer is frequently the force that first induces the customer to listen to him, but if this is the means used to secure attention, it is absolutely necessary to transfer the buyer's attention from the salesman to the article that is to be sold before any sale can result. It is for this reason that the quiet, undemonstrative salesman is usually more efficient than the one with a loud voice, strong language, and exaggerated gestures. It is easy for the buyer to transfer his attention from the personality of the salesman to the proposition that is offered if the man that approaches him is quiet in manner, but it is difficult in the case of the demonstrative salesman because his personality is such that it can never be subordinated to any other factor in the sale.

There are countless methods of securing attention; every salesman has his own methods and every sale presents its own problems. The ability to read character

and the possession of initiative are the two qualities that are of most assistance to the salesman in determining the proper method for any particular sale. The manner of greeting the customer has much to do with the matter of attracting attention. Frequently it is advisable to introduce the conversation by talking about some subject not directly connected with the business in hand. It has already been suggested that approaching the customer on his "blind side"—getting his confidence by showing the salesman's interest in him and in the things that interest him before the subject of business is introduced—is valuable in securing the buyer's attention. The use of humorous stories and references to news items of the day have this purpose.

It should always be remembered, however, that attention secured by such irrelevant means must be completely transferred from the alien topic of conversation to the particular business proposition that the salesman wants to present before there is any possibility of making a sale. Therefore, wherever possible, it is to the salesman's advantage to use some method of introduction that will definitely and immediately attract the customer's attention to the article the salesman wants to sell. A new city salesman was employed by a specialty house that sold patented mouse-traps to retail dealers. The new man knew only the stereotyped forms of introduction, and he approached every buyer with the same formula: "Good morning, Mr. Smith. I am Mr. Brown, representing the Great Northern Specialty Company. I have an article," but in the majority of cases he got no further, because he had wholly failed to secure the busy merchant's attention. He reported his difficulty to the sales manager, who resolved to go out with him and see wherein the trouble lay.

The sales manager witnessed one of the salesman's ineffectual attempts to secure a hearing, and he determined to make the next approach himself, while the salesman simply observed his methods. In the next store the sales manager approached the buyer, and without a word of introduction simply placed the mouse-trap in his hands. It was an ingenious contrivance, and that fact, together with the unusual method of presenting the proposition, immediately secured the customer's attention. A brief statement of prices and profits was all that was necessary to close the sale. Attention was directly and forcibly attracted to the article to be sold rather than to the personality of the salesman; and in many cases this is the best method to pursue.

121. *Arousing interest.*—Interest is simply sustained attention. If a customer can be induced to give more than momentary attention to a salesman's proposition, he has had his interest aroused in it. The secret of holding attention and, therefore, of arousing interest, is to present a proposition continually in a new light. No one can give attention to a single thought or idea for more than a very brief period of time.

The first idea must be immediately developed if the attention is to be held. The characteristic feature of this second step in a sale is the salesman's detailed description of his proposition. Each point that is brought out focuses the customer's attention, and his interest is thereby aroused in the proposition as a whole. The description of the article to be sold, of its construction, uses, and advantages, should be definite and detailed. The use of general terms is sometimes sufficient to secure attention, but if interest is to be aroused, the salesman must abandon generalities and use only specific

language. The use of questions is permissible, but they should be such as to aid rather than to interrupt the logical development of the salesman's proposition. If the customer can be made to answer "Yes" or "No," his interest will be increased, because his attention is thereby directed specifically to particular points, and his final assent to the salesman's conclusion follows as a natural result of his assent to the several parts of the selling talk.

If the article that is being sold is such that a demonstration of its construction and uses is possible, the salesman has a great advantage if he is given an opportunity to show it to the customer and to make the actual article supplement and illustrate his spoken description of its merits. Nothing is so calculated to arouse interest as an actual demonstration. It emphasizes points as no mere statement of them can do, and the constant succession of things of interest that the customer can see for himself makes it easier to retain his interest than when the salesman has to depend on his own powers of description for the constant presentation of new points. No description is effective unless it appeals to the customer's self-interest. He must be shown how the purchase of the article will increase his happiness, comfort, or profit, or the happiness, comfort, or profit of those whose welfare is of great importance to him.

It is essential for the salesman to get the customer's point of view; he must present the features of the proposition that will appeal to the customer—not necessarily those that appeal to the salesman. There are almost as many ways of arousing interest as there are of attracting attention, and the proper method to use in each case depends on the peculiar characteristics of the salesman,

the article to be sold, and the customer. In all cases, however, an adequate description of the article must have some place in the interest-arousing process, and the most successful salesmen are those who can describe their propositions concisely, graphically, and forcibly.

122. *Creating desire.*—It is obvious that attention to a salesman's selling talk, and interest in what he is talking about can not in themselves induce a customer to make the purchase. He must be made to desire the goods; otherwise both of the preceding steps will have been taken in vain. This fact is so evident that no elaboration of it is necessary. The dictionary says that desire is the "wish to obtain" a thing, and the word has this meaning in salesmanship. The "wish to obtain," however, is not to be confused with the determination to obtain. The latter is the last step in selling; there must be desire before there can be determination.

In some cases, of course, the customer naturally desires the article that is presented for his consideration, without any effort on the part of the salesman to create the desire. The desire must be present in some form, however, before the sale can proceed any further. If it is necessary for the salesman to create it, what methods is he to employ? As in the case of attracting attention and arousing interest, the methods of creating desire are as various as the characteristics of the articles that are sold, the personalities of the men who sell them, and the peculiarities of the prospective customers. A few general principles, however, are suggestive of methods of procedure. Just as sustained attention develops into interest, so interest if properly nurtured can be developed into desire, and the methods of arousing interest are largely the methods of creating desire.

Continued presentation of the merits of the article to

be sold is necessary. The customer must be convinced that its purchase would conduce to his pleasure, profit, or gratification, or that it would be desirable from the standpoint of his employer. Argument may be used, but so sparingly as not to antagonize the buyer or to make him think that his wishes and his interests are not the chief factor in the salesman's desire to make the sale. The best method of argument is a display of the article and the logical presentation of its strong selling points in such a manner as to appeal to the peculiar needs of the buyer.

Suggestion has a most important part in the creation of desire. It has been said that we like to believe that we are reasonable beings, but that we act more often because the action has been suggested to us than because we have determined to do it through a process of reasoning. The salesman should utilize this valuable principle. His reasoning and logical presentation of selling points are effective, but reasoning should be supplemented by tactful suggestions that will make the customer think that he has from the first desired the article, without having been greatly influenced by the selling methods of the salesman. No one likes to admit that his opinions have been changed by the statements of another, and the efficient salesman, instead of relying too much on logical reasoning, suggests the things that make the customer alter his unfavorable ideas, and that ultimately create in him a desire to purchase.

123. *Inducing resolution and inciting to action.*—Attention, interest, and desire are simply states of mind. Resolution to buy involves decision and action. There are many salesmen who are able to carry the customer through the first three steps, but who seem to be unable to close the sale. In some organizations there are

men who are called "closers," and who are definitely assigned to the task of bringing about action in the case of "prospects" whom other salesmen have worked up to the point of interest or desire, but whom they are unable to bring to the point of actually placing the order. The ability to "close" is the most valuable item in the salesman's equipment. Unaided he can not make sales unless he can inspire action as well as induce the proper mental attitude toward his proposition. A man may desire an article greatly and yet not be willing or able to purchase it. A poor man may want an expensive automobile very greatly, and yet not have the resources to buy it. In most sales, however, the salesman does not approach buyers who he thinks are unable to take advantage of his proposition, and because of that fact it is often true that desire, if it is strong enough, can be developed into resolve to purchase and definite action toward that end.

In taking this final step in the sale—in inspiring action—the salesman must meet the objections of the customer. If the salesman has accomplished the preceding steps, he has presented his entire case, and he has now simply to play the part of the debater who has presented all his own points and who merely emphasizes them in his rebuttal of the points that are presented by his opponent. The customer urges the greater necessity of making other purchases, or the inexpediency of investment. He acknowledges the value of the article but prefers to delay buying it, or he interposes any one of the countless other objections that every salesman is familiar with and has to face. The salesman meets them courteously and positively by suggestion, by exciting the customer's imagination, by emphasizing his previous points and phrasing them so as to suit the conditions mentioned

by the buyer. He lets the customer do most of the talking, but he watches for every opportunity to interpose a conclusive point that will meet the buyer's objection to immediate action. The salesman is often forced to employ direct argumentation in this last step in the sale, and it is entirely permissible for him to do so when the tactics of the buyer demand it; but the salesman should never lose sight of the necessity of retaining the customer's good-will and of so phrasing his arguments that the match of wits will not degenerate into mere controversy and dispute.

There is a "psychological moment" when further talk is useless and when the buyer is ready for the definite suggestion to put his name "on the dotted line." Some salesmen fail to recognize this moment. They talk a buyer into a sale and then they talk him out of it again. To recognize the moment for action when it arrives is often the most difficult feature in the sale. Common sense, experience, a thorough knowledge of human nature, and careful attention to everything a buyer says and does are the things that give a salesman the ability to stop talking when he has said enough, and to present the order blank for the buyer's signature.

To bring about resolution and action is the final purpose of every sale; without it all the other steps are worthless. But if attention has been properly attracted, interest aroused, and desire created, and if the salesman has used intelligence in selecting his prospect, desire can be so strengthened and objections so met that the customer will take the desired action and the actual sale will result.

124. *Importance of steps in a sale.*—Mr. A. F. Sheldon was probably the first to point out the presence of these four steps in every sale. They are now recog-

nized by most of the investigators of the science of salesmanship. It is not, however, to be inferred from the emphasis that is placed upon the steps in a sale, that they are to be consciously borne in mind by every salesman whenever he faces a customer. The world's salesmen made successful sales for many centuries before the steps were heard of, and the experienced salesman of to-day seldom has definitely in mind the necessity of surmounting the various steps in their logical order whenever he attempts to make a sale. This does not alter the fact that, whether the salesman is aware of it or not, if the sale is to be successful, the buyer must be made to give his attention, he must take an interest in the proposition, he must experience desire to acquire the goods that are offered to him, and he must make a definite resolution to buy. Sales can be made without any thought being given to these steps, but if a salesman studies them and learns some of the methods that are calculated to enable him to surmount each one, he will gradually find himself applying the methods unconsciously whenever he is in a situation where they might be helpful.

The value of the steps in the study of salesmanship is comparable to the value of the fundamental principles in the study of any science. A man who analyzes his activities and who knows *why* he applies certain methods is bound to apply them with greater effectiveness and discrimination than the man who has otherwise the same equipment but whose operations are directed only by intuition or by a system of unrelated bits of knowledge based upon the unorganized results of his own experience or the experience of others.

CHAPTER XIII

QUALITIES OF THE SALESMAN

125. *Factors in a sale.*—We have discussed salesmanship from the point of view of the steps that must be surmounted in every successful sale. The subject may also be considered from the point of view of the factors that are present in all sales. These factors are the salesman, the article to be sold, and the customer. If a salesman is to make the greatest success in his profession, he must be trained not only in the four steps and in the methods of surmounting them, but he must also develop the proper relationship to each of the factors in a sale. The two points of view are so closely related that it is impossible to separate them in his training, for the development of the proper relationship to the factors is simply for the purpose of enabling him to carry a sale through the four essential steps.

126. *Personality of salesman.*—The first factor is the salesman. The development of the right relationship of the salesman to himself means simply the development of the proper personality—of the personal qualities that must be possessed by the successful salesman. If he possesses these qualities, he will unconsciously assume the right attitude toward the article to be sold and toward the customer. To consider the factors in a sale, therefore, we have chiefly to consider the characteristics of a successful salesman and the possibility of developing the necessary qualities. We shall consider in detail some of the more important of these qualities. If

they were all purely natural attributes and were incapable of development by the man who did not possess them—if it were true that a salesman is born and not made—a consideration of the characteristics of a successful salesman would be worthless to the man who aspires to success in selling.

As has been previously pointed out, however, the old idea about the mystical nature of success in salesmanship has been exploded. Success in this profession as in all others rests on certain principles. It has been proved to be possible for a man to obtain training in these principles, and, if he has inclination for the work and a fair equipment of brains and will power. to acquire the qualities that will bring him at least a fair degree of success.

In the following presentation of some of the characteristics of an efficient salesman, the word salesman is used in the broadest possible sense. It refers to anyone, man or woman, who has any part in the distribution of merchandise. To make the discussion concrete, however, we shall have in mind the individual who may be termed the typical salesman—the man who actually faces customers, who usually travels from town to town, and upon whom the success of most selling organizations finally depends. He may represent a manufacturer or a jobber, or he may sell general lines or specialties by calling upon consumers. He may belong to the largest class of all—the great army of sales-people who distribute through retail stores more than ninety per cent of the staple goods that are consumed in this country. In all of these cases the essential qualities of the successful salesman are the same.

127. *Inclination for work.*—No one should consider entering the profession of salesmanship unless he feels

impelled to do so by a love of the work. Too often in the past, salesmanship has been the last resort of the unsuccessful man and the chance choice of the man with no definite purpose in life. It has been undertaken because it seemed to offer easy work which required no training. Another false incentive to enter the profession is the glamour with which the inexperienced are likely to invest the life of the traveling salesman. The clerk in a retail store meets the jobbers' and manufacturers' representatives that come to sell to his employer, and the variety of their life appeals to him in contrast to the monotony of his own work. Or the minor clerk in a jobbing or manufacturing establishment learns of the salaries that are paid to the firm's traveling representatives, he observes the freedom of their movements when they visit the home office, and he is impelled partly by envy and partly by discontent with his own work to aspire to their positions.

Such incentives as these do not often bring success in selling. No one should undertake the profession of salesmanship who does not feel that the work of selling is the one work that he wants to do. There are disappointments in salesmanship, there are many discomforts and hard, grinding labor. To bear up under the rebuffs, temporary failures, physical trials, and mental strain, the salesman must have the sure foundation of love of his work—intense pleasure in the constant conflict of minds and in the part that the salesman plays in the great game of business.

128. *Mental ability.*—The degree of success that is attained in selling, as in anything else, depends largely on the salesman's equipment of brains and will power. For lack of a better term to indicate this essential

equipment, we shall refer to it as mental ability. The possession of quick wit is one of the necessary natural endowments of the salesman. Will power can be developed, but the man who is naturally dull can not ordinarily quicken his mental processes. He can not hope for success in salesmanship any more than he can hope for success in any other profession. There always has been and there always will be an aristocracy of brains, and the successful salesman certainly belongs in that classification.

Inclination for the work and a considerable amount of mental ability are the necessary natural endowments that must be possessed by the man who wishes to become a successful salesman. They are fundamental; they form the basis for training in the other qualities that the salesman must possess. With inclination and mental ability as a foundation it is submitted that there is none of the qualities that are to be discussed hereafter that can not be acquired and developed to a greater or less extent by the individual who is determined to make himself efficient in the work of selling.

129. *General education.*—The high-grade salesman is an educated man. His interests are broad, and he is able to talk intelligently to many men on many subjects. The salesman who knows his own line and nothing more is narrow, and his efficiency is limited by the boundaries of his knowledge. He can not serve either himself or his employer to the best advantage, because the introduction into the selling interview of a topic not immediately concerned with the article he is handling indicates to the buyer the mental limitations of the salesman and makes it impossible for the latter to maintain an attitude of equality with those with whom he deals.

There is scarcely any branch of human knowledge for which a salesman may not at some time have definite use in his business activities. The more complete a salesman's education has been, the greater are his opportunities to win the confidence and respect of his customers and to increase the prestige and sales of his employer and of himself.

A salesman must be able to express his ideas clearly, concisely, and forcibly. He must possess conversational ability and the common sense to talk to the best purpose. This is by no means the same as saying that a salesman must be a fluent talker. The best salesmen are not those who talk the most, but those who talk less and make every word count. Nearly every sales manager can point to men on his staff who are by no means fluent talkers, but who possess the immensely valuable ability of knowing exactly the right thing to say at the right time, and of saying it in such a way that they make the customer think that the idea is his, rather than the salesman's. The man who knows how to make the customer do most of the talking is in a decidedly advantageous position.

The power of expression—and of repression as well—like all the other worth-while attributes of a salesman, comes chiefly from long study and training. There may be natural orators in the selling field, but they are at a disadvantage with the man who has made a careful study of the things he should say in any given circumstance, and of the exact manner in which he should say them in order to gain the desired end.

130. *Health.*—Health is one of the foundation stones of success in any activity. Illness, physical weakness, frequently enforced absence from work, and the lack of vital energy that always accompanies ill-health, are

fatal barriers to a salesman's success. Health is largely a matter of habit. The man who takes care of himself has gone a long way toward establishing a sound constitution, while the man who is careless of his body and who uses up his energy in dissipation must pay the price in failure.

The business world has pretty generally abandoned the idea that there is no connection between what a man is at eleven o'clock at night and what he is at eleven o'clock in the morning. The old-time "hit or miss" method of selling concerned itself little with these things. If a salesman turned in a fair volume of sales, his personal faults and excesses were condoned. That is not the attitude of the sales-manager of to-day. He is not satisfied with a portion of a salesman's efficiency. He demands maximum results, and the salesman who remains in his employ must take every precaution to conserve every ounce of energy he may possess. No man can be intemperate in anything and expect to develop himself to the utmost. The keen, fighting, successful salesman of to-day is clear-eyed and clear-brained. He achieves the results he sets out to accomplish because he is absolute master of himself, and mastery of self gives him mastery of others.

181. *Importance of appearance.*—The importance of the salesman's dress and general appearance has been already considered in our discussion of the external characteristics that the sales-manager takes into consideration when he interviews an applicant for a selling position. Salesmen are well-dressed because their business demands it. Customers like to deal with prosperous houses. The salesman represents the house, and, as the outward symbol of prosperity is good apparel, it is essential for the salesman to dress as well as

his income will permit. But aside from the necessity of presenting a good appearance for the benefit of his old customers, he must have due regard for the first impression he makes upon strangers. The well-dressed man will often secure the attention of a "prospect" where the man of careless appearance would utterly fail to secure a hearing. Good clothes give a salesman an advantage because they create a sentiment in his favor, and for that reason they are of great importance in the first step in every sale—securing the customer's attention.

182. *Honesty.*—The man who is unable or unwilling to be absolutely honest has no place in salesmanship. It is true that there is no permanent place in any business for a dishonest man, but lack of honesty is especially fatal in selling. A salesman is peculiarly liable to temptations. He is so much his own master in the details of his work that there are many opportunities for dishonesty in his relations with his employer. If he has an expense account, he must be constantly on his guard to resist the temptation to "pad" the account. If he makes reports that involve any labor in their compilation, he must be certain that his information is accurate and that his method of reporting is exact. He must only seek credit for sales to which he is rightfully entitled. He must remember that his time belongs to his employer, and that the theft of an hour is as dishonest and as costly for his employer as the actual theft of money.

If he understimates the importance of these things and allows the line between right and wrong to become blurred, he will soon find himself in such a maze of dishonest habits that his efficiency will be at an end.

The standard of business ethics is being raised. Actions that were condoned not so many years ago are no longer tolerated. Just as the employer's responsibility to the employé is being increased, so has the conscientious employé changed his attitude toward his employer.

The salesman, more perhaps than any other employé, is the actual representative of the man who employs him. If he is dishonest, his customer has reason to believe that dishonesty is the policy of his house. If he misrepresents his goods, his employer must bear the responsibility. Such methods are not tolerated by the right sort of employers—and the other sort can not buy the services of self-respecting men. Honesty with himself, with his employer, and with his customers is absolutely essential to a salesman's success.

133. *Sincerity.*—It is said that the whole fabric of modern business is based upon confidence. This is certainly true of salesmanship. Few sales are ever made unless the purchaser has confidence in the goods and in the man who makes the sale. Nothing can so effectively secure the customer's confidence as sincerity on the part of the salesman. A salesman is severely handicapped if he does not believe in his work, if he is not thoroughly convinced of the quality of the article he is selling, and if he does not feel absolutely sure that the sale will be to the mutual advantage of the purchaser and of himself. If he is not in this state of mind, he must simulate sincerity where none exists; and the keen, experienced buyer is quick to detect dishonesty either in the article itself or in the attitude of the salesman. Insincerity breeds distrust, and distrust, once aroused, is exceedingly difficult to displace. If a salesman can not

"talk" his line with absolute sincerity, he had better change employers, because he is carrying a handicap that will seriously interfere with his success.

134. *Fidelity.*—Fidelity in salesmanship simply means being honest with one's employer. Loyalty is one of the most marked characteristics of the successful salesman. He realizes the full responsibility that attaches to his position, and he is true to his trust. He remembers always that he is the personal representative of his employer, and he strives to conduct himself so as to bring no dishonor upon the house.

135. *Courtesy.*—Courtesy is one of the first qualities that a salesman must develop. His constant attitude is that of a supplicant for the time and attention of another. At first, the customer almost inevitably adopts the attitude that he is doing the salesman a favor in listening to him. Since this is the attitude of the man he is seeking to interest, the salesman must adapt himself to the circumstances, and win a hearing by the courtesy of his bearing. He will meet rudeness and discourtesy, but at all times he must retain control over himself. A single discourteous word or action may imperil his success in a sale.

The outward sign of courtesy is good manners. They can be acquired without price, and yet nothing in the salesman's equipment pays larger dividends. Good manners enable a salesman to appear at his ease even in the most trying situations. The average salesman goes over the same territory many times. If he does not make a sale to a man on one trip, he expects to do so on the next, and the impression he leaves with those who have failed to buy from him is of great importance in determining the character of his future reception by them.

Politeness and good manners are the outward expression of courtesy, but it is possible for a man to school himself to be polite without possessing real courtesy. Courtesy is something more than mere manners. It is one of the moral qualities that are essential for the highest success of the salesman. He should develop a habit of consideration for the people he meets that will make it impossible for him to harbor a discourteous thought toward them, and will render the acts of courtesy unconscious and actually indicative of his mental attitude.

186. *Industry.*—Men have been known to take up the profession of salesmanship because they were looking for light work. They were disappointed. They either reconciled themselves to strenuous labor very shortly, or they ceased to be salesmen. The successful salesman works hard, all the time. He does not know what "working hours" mean. Day or night, whenever there is an opportunity to make a sale, he is ready to give himself wholly to the task of selling. He works all the time because he likes to. He is engaged in salesmanship because of his love of the work—not because he is paid a certain wage for so many hours of labor every day. He would rather make a sale than do anything else, and he never thinks it a hardship to sacrifice personal ease and comfort for the sake of matching his wits against those of a possible purchaser.

Every case is a new problem to be solved, and the salesman takes the keenest delight in its solution. There have been salesmen—those of the old-fashioned variety—who were inclined to let working hours be determined by their physical condition and mental moods. A few days of good results were followed by several days of inactivity. No salesman can work intermit-

tently now-a-days and be a success. The modern game of selling is played at too rapid a pace to permit any of the players to rest on their past achievements. They must be always up and doing—and the real salesman needs but little incentive to give himself without reserve to the absorbing work of his profession.

137. *Open-mindedness.*—In every occupation there are some men who think they know all there is to be known about their work. They resent suggestions from others; new plans, new ideas have no interest for them, and they are satisfied to continue in the same rut that they have followed all their lives. Such men are seldom found in important positions. They are never found at the head of a sales force.

The successful salesman is essentially open-minded. If he is to acquire qualities that he does not naturally possess, he must ordinarily learn what they are from the statements of others, and he must be willing to accept the frank suggestions of those whose advice he seeks regarding the defective portions of his personality. He is constantly watching for new methods of increasing his efficiency. He realizes that he is engaged in one of the most difficult of the professions, and he knows that there are things he can always learn about his business. He reads business literature, and he makes use of the information he gains from that source. If he has a particularly hard selling problem to solve, he is glad to receive the aid of his manager or a fellow salesman. He welcomes letters of constructive criticism, and he reads sales bulletins and attends salesmen's conventions with the determination to get from them everything that can in any way assist him in developing his efficiency.

Open-mindedness is a valuable asset. It is the

quality that keeps a man out of a rut; and it has been truly said that "the only difference between a rut and a grave is in the width and depth."

138. *Persistence.*—Persistence is the quality that prevents a salesman from becoming discouraged. It is based upon industry, courage, and patience. It enables a salesman to follow up a "prospect" month after month and year after year, if necessary, until the sale is finally made. The salesman must work for the future as well as for the present. The difficult, long-pending order is usually more valuable than the immediate, easily secured one. The salesman must often plan his campaign for weeks and months in advance. Every detail must be carefully worked out, and then he must persistently follow his program until the last barrier is removed and the sale is effected.

There is no quick and easy road to success in selling. The man who has the necessary training and who plods persistently along is the man who gets the orders. Mere brilliancy in salesmanship is notoriously unreliable. The persistent salesman who is always at work and who never gives up is the one whose order book contains the most entries.

139. *Tact.*—A salesman without tact is an impossibility. He would antagonize a customer more frequently than he would secure his order. No amount of inclination and training could bring a salesman success if the development of this important quality had been neglected. Tact is the attribute that enables a man to deal with others without friction. It enables him to adapt himself to circumstances and to do the right thing in the right place. The lack of tact is largely a matter of thoughtlessness and selfishness.

To develop the quality of tact, it is necessary for a

salesman to plan his selling talk with infinite care, to think of the customer instead of himself, and to use good judgment and common sense to guide him in all his words and actions. The tactful salesman always looks beyond the immediate action, and sees what its results will be. He does not force himself upon a dealer's attention, if the latter is obviously too busy to talk to him. He avoids such topics of conversation with his customers as politics and religion, which are likely to lead to profitless argument. He humors his customers' prejudices—when they are not antagonistic to his goods—and conforms his manner and speech to the known peculiarities of the man with whom he is dealing. He discovers his customers' likes and dislikes, records them systematically, and bases his selling talks upon this information. He knows when to talk, and he knows when he has said enough and it is time to leave the customer or to close the sale. He talks about his own goods—not his competitors', and he carefully avoids suggesting in any way that the "prospect" has not used good judgment in purchasing from another house. He is a business diplomat. He guards his tongue and actions with the utmost care, and he gains a desired end in a manner calculated to create the least friction and to pave the way for future cordial relations.

140. *Initiative.*—There are three classes of employés: the first need to be told to do a thing but once; the second have to be told three or four times, and then there is no certainty that they will carry out instructions; the third do the things that need to be done, without being told. They possess initiative. The ability to carry out instructions is valuable, but the ability to anticipate instructions and to do things on one's own initiative is immensely more valuable.

There are many salesmen who are continually asking the home office for help and advice in particular sales. If they are men who can carry out instructions, their manager is glad to give them the necessary assistance; but such men are not the ones the management sends on important missions or puts in charge of the best territories. The typical, high-grade salesman is self-reliant and confident of his ability to handle any situation that may arise. He is not egotistical or unwilling to accept aid when aid is necessary, but he is so trained in the principles of his profession that he can usually apply them immediately under any circumstances without delaying action while he seeks advice, when delay means a possible loss of the sale. The salesman with initiative scents possible business as a newspaper reporter scents news. He takes advantage of unusual conditions to secure unusual results, and he never loses an opportunity to act with decision and judgment when the interests of his employer are at stake. In short, his work for his employer is as self-reliant and constructive as it would be if he were working for himself.

141. *Knowledge of the business.*—In a profession in which there are so many qualities whose possession measures the worker's success, it is impossible to pick out one or more whose importance over-shadows that of any of the others. It is certainly true, however, that a man may possess all the qualities that have been mentioned, and yet not be a salesman if he has no knowledge of the business in which he is engaged. The phrase "knowledge of the business" is used to include knowledge of three different subjects:

1. Knowledge of the goods the salesman is to handle.

2. Knowledge of the policies, methods, and personnel of the business house that employs him.

3. Knowledge of the business methods and of the strength and weakness of competitors in the field in which he is to operate.

In a previous chapter we have considered modern methods of training salesmen, in which practical experience in the construction of the things to be sold plays an important part. No man can sell goods intelligently unless he is thoroughly familiar with them. He frequently meets buyers who are fully conversant with all the details of the line he is handling. If he finds that his customer knows more about his goods than he knows himself, he is in a decidedly embarrassing position, from which he can extricate himself with credit only by the exercise of exceptional tact. Absolute knowledge of the goods to be sold is essential, and this knowledge can be acquired only by specialization and careful training.

The most promising material for machinery salesmen is now to be found among the graduates of technical schools, and school-book salesmen are largely recruited from the ranks of teachers who have had actual experience in using the kind of books they are to sell. In these as in all other lines the best results are secured by the men who have the most extensive and exact knowledge of the things they sell.

The salesman represents his employer. Therefore, he can not work to the best advantage unless he is fully in touch with the house that employs him. Too often a new salesman is handicapped by being sent out "on the road" before he has had opportunity to acquire familiarity with the men and methods at the home office. The wider the salesman's acquaintance among the mem-

bers of the office force, the greater will be the probability of co-operation from all members of the organization. The salesman frequently works for weeks at a time without coming into personal contact with his manager or other members of the office organization. At such times his efficiency is increased if he knows that he is something more than a mere name to the people at the home office, and that his personal acquaintance with the various department heads will insure his orders' being given as careful and prompt attention as those of any other salesman.

But besides knowing the members of the organization of which he is a part, the salesman should know the methods and policies of the house that employs him. For example: the routine of orders is, of course, explained to him, and if he has reports to make out, he is given instruction in the method of their preparation. If his instruction in methods, however, goes no further than that, one opportunity of increasing his efficiency is being overlooked. Delays in filling orders are bound to occur at times; the salesman should understand the causes of these delays so that he can explain the matter satisfactorily to his complaining customers. Many salesmen look upon reports as unnecessary and unwelcome burdens; if they have a complete knowledge of the statistical system of which their reports form an important part, they will make them with greater willingness and accuracy than would otherwise be the case.

It is the duty of a salesman to keep his eyes and ears constantly open for anything that may have even a remote bearing on the sale of the goods he is handling. An intimate knowledge of the competitive field is a mark of the high-grade salesman. It is frequently and correctly said that a salesman should talk to a customer

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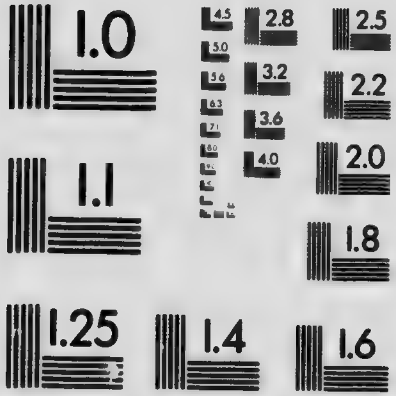

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about his own line, and not his competitor's. It does not follow, however, that a knowledge of his competitor's line is unnecessary. On the contrary, the salesman who has an intimate knowledge of the quality and prices of the goods that are in competition with his own is the one who can make the most effective use of the selling points possessed by the articles he is handling.

142. *Confidence.*—A salesman without confidence in himself, in his goods, and in his employer can not be successful. Confidence is not a quality that can be cultivated separately like honesty, knowledge of the business, industry, etc. It is the natural result of the development of all the other essential qualities. A man who makes a conscientious study of his own physical, moral, and mental characteristics, with the firm determination to correct his faults and to develop his efficiency, and who is at all successful in carrying out that determination, thereby acquires justifiable confidence in himself, which enables him to take up any proposition with reasonable assurance of his ability to carry it through to success.

Likewise, an intimate knowledge of the line he is selling serves to put him at his ease in whatever situation he may find himself. If he has studied his line and has found it good, he has acquired a confidence in the things he is to sell that no amount of criticism by a buyer can destroy. On the other hand, if he has studied his line carefully and has found it unworthy of confidence, he had better never attempt to sell it, because he will be constantly forced to counterfeit a confidence that he does not possess.

Confidence in the house that employs him, in its financial condition, in its ability to keep its promises, in the character and ideals of the men at its head, and in its

desire to deal honorably with everybody, is an immensely valuable asset for the salesman. It increases his respect and liking for his employer, it promotes satisfaction and contentment, it gives him assurance of solid backing, and it adds dignity to his work.

It has been stated that confidence is the basis of all business. The constant effort of the salesman is to create in the mind of the customer confidence in the salesman, in the goods he is offering, and in the house that makes them. If the man who is trying to inspire this confidence does not possess it himself, he can not hope to be successful in inspiring it in another.

143. *Enthusiasm.*—A great authority on salesmanship has said: A man might have honesty, health, ability, initiative, knowledge of the business, tact, sincerity, industry, and the other qualities of salesmanship, and without enthusiasm he would only be a statue. Enthusiasm is the white heat that fuses these qualities into one effective mass.

The man who is enthusiastic has an intelligent, vital interest in what he is doing. He works for the love of the work, and would rather sell goods than do anything else. He talks as if he meant what he said, because he does mean it. He is fired with an intense desire to impart his enthusiasm to others. Enthusiasm makes a man "talk shop" whenever there is the slightest chance of influencing a sale; it enables him to forget disappointments and failures and to start afresh with renewed determination to succeed.

Emerson says that no great thing was ever accomplished without enthusiasm. This is certainly true in selling, as in everything else. Enthusiasm is the force that grips the attention of the customer, that impresses him with the salesman's sincerity, that makes him forget

his objections, and that rushes the sale past all obstacles to a successful consummation. It is a quality that can be acquired, and it must be acquired before success can come in the fullest measure to anyone in any line of endeavor.

Thousands of salesmen begin each working day with the determined purpose of working up their enthusiasm to a point that will carry them over all the difficult places in the day's interviews. Their method is to "sell themselves" every day before they try to present their propositions to anyone else. They go over every selling advantage of their goods, they present their arguments to themselves just as they would to the most obstinate buyer, and they prove to themselves absolutely that their propositions are the best ones on the market, that their houses are the best in the business, and that no one is so capable of selling their lines as they are themselves. This method of stimulating enthusiasm brings results. It refreshes the salesman's memory with the essential points in his selling talk, it vitalizes him for the day's work, it rekindles confidence in himself, in his line, and in his employer, and it gives him the magnetic energy to impart his confidence to others.

Enthusiasm is the quality more than all others that makes a salesman oblivious of difficulties, that vitalizes his selling efforts, makes him forceful and optimistic, turns apparent defeat into victory, creates a bond of sympathy between buyer and salesman, changes apathy into interest, and makes personal salesmanship the vital factor that it is in the distribution of the world's goods.

144. *Opportunities in salesmanship.*—In this character sketch of a successful salesman we have mentioned only the more important of the qualities that are essential to success in salesmanship. Their number and

variety are indicative of the growing importance and complexity of this absorbing profession. Modern industry offers opportunities that were not dreamed of a generation ago, and in no field of business are there greater opportunities than in the field of salesmanship. It calls for the highest type of ability and training, its demands are severe, but its rewards are commensurate with its requirements.

CHAPTER XIV

THE BUYER AND HIS WORK

145. *Buying the universal business activity.*—Buying is probably the most common of all business activities. In any marketing or manufacturing business a portion of the profits are very directly attributable to the care with which the stock of the store or the raw materials for the factory are purchased. It is true that the buying end of the business is not of primary importance in such industries as farming, lumbering, mining, and banking, which are either extractive or contributive, and are not concerned with the sale of goods that have been previously purchased or with the working up of raw material into a manufactured product. Even in these industries, however, the efficient conduct of the business requires the purchase of certain supplies. The farmer and lumberman must purchase their tools with care, the miner must exercise skill and economy in buying his valuable machinery, and the banker must guard his profits by seeing that the utmost discretion is employed in the purchase and use of office supplies.

There is no business or profession that does not involve the purchase of supplies of some sort. Buying is a universal business activity. Despite its importance in every organization, however, the subject of buying has received little attention from those who contribute to the rapidly growing literature of business. The purchasing agent has had no text-books and few reference works; his own experience and observation have been

almost the only factors in his training, and he has had little opportunity to profit by the experience of others whose methods and systems might help him in his own activities.

It is partly due to this fact that the buyer frequently is a "one house" man; that is, his success in one organization has not always been accepted as proof of his ability to secure equal results in a similar capacity with another employer. It must be borne in mind, of course, that the amount of detailed knowledge required of the buyer is so great that, even under the most favorable circumstances, it would not be easy for him to go from one line of business to another and to adapt himself quickly to the new conditions. But even with due weight given to that consideration, it is not to be questioned that general training in the principles of his work may be of assistance to the buyer just as it is to the salesman or the manufacturer or the accountant or the correspondent.

146. *Scope of buyer's duties.*—The modern tendency is continually to broaden the scope of the buyer's duties. At one extreme is the member of the small office organization to whom is delegated the task of purchasing the office supplies. At the other extreme is the buyer for the large factory who purchases raw materials, supervises their storage and distribution, and is largely responsible for the satisfactory working of the cost accounting system so far as it pertains to the processes of production. The duties of the buyer are so closely related to those of other employés that the tendency is more and more to give him a direct interest in all the work that is immediately allied to purchasing.

In a retail or wholesale business we have found that it is not customary to attempt any separation of the

functions of buying and supervision of selling; and in the complex factory organization the close relation between the actual buying, the storing, and, to some extent, the preliminary working on the raw materials that go into the finished product, has made it frequently advisable for the purchasing agent to be placed in charge of all of these activities.

147. *Buyer's problems.*—The chief problem of the buyer is to obtain low prices and quick delivery on small quantities. If he could always purchase in large quantities, his duties would be greatly simplified, and the purchasing would become largely a matter of system and routine. The possibility of a large order immediately attracts those who have the desired supplies. One salesman bids against another to bring down the price, and, if the bidders are of equal responsibility, the placing of the order simply means selecting the lowest bid. Ordinarily, however, the buyer is not in this enviable position. He must frequently go into the market with a small order which in itself is not attractive to the suppliers, and by his knowledge and skill obtain the best price that is possible under the circumstances.

148. *Two opposing considerations.*—In his desire to do his work in the most efficient manner, the buyer is constantly limited in his activity by the conflicting requirements of two opposing considerations. The first of these is the necessity of purchasing in the largest possible quantities in order to secure the lowest possible price. If, for example, one thousand units of a certain article can be used by a factory within a reasonable time, and, if the price for that quantity is lower proportionately than for one hundred units of the same article, it is to the buyer's advantage to purchase the larger amount. Is it equally advisable, however, for him to secure a still

lower proportionate price by purchasing in quantities of, say, ten thousand units? The requirements of economical buying force him to take advantage of the quantity price whenever possible, but the question of what is economical buying must receive careful consideration in each individual case.

The temptation to buy heavily is not occasioned only by the low price generally allowed on large orders. An unusual condition of the market frequently tempts the buyer to purchase a large stock of needed supplies under peculiarly advantageous circumstances. The restaurant keeper may have an exceptional opportunity to buy fresh fruit at a very low price. He knows that he will have to pay more to-morrow or next week, and if the food could be used before it deteriorates in quality, he would save money by purchasing at to-day's price. The clothing dealer may be offered a lot of garments at a special price which will mean a large profit on the transaction. If he could accurately judge the future demand, he might buy heavily because of the unusual inducement. The automobile manufacturer may have a chance to make a long time contract with a certain manufacturer of gasolene engines on especially favorable terms. If he could be sure that improvements and economies would not be effected in gasolene engines in the near future, it would be to his advantage to enter into the contract.

In all these cases the price is tempting; and, if that were the only consideration, the buyer would be saving money by taking advantage of the quantity figure. There is, however, a second consideration that enters into every buying problem. This second consideration is the necessity of limiting the size of the purchases, which may be caused (1) by financial considerations, or

(2) by the possibility of depreciation. Let us examine these two considerations.

149. *Financial considerations.*—In a small establishment the resources of which are meager and the credit limited, the financial consideration is the one of first importance; and this consideration loses little of its importance even in the larger and richer organizations. The ability to turn over capital rapidly is of vital importance in successful merchandising, and it is never advisable, therefore, to tie up capital in supplies beyond the extent required by economical buying. The manufacturer must likewise beware of an unnecessary or excessive investment of capital in the purchase of raw materials.

In order to guide the buyer in his determination of the proper quantities to purchase, maximum quantities are usually determined upon, which the stock of supplies or of materials of any particular kind must not exceed. Although these quantities are fixed only after careful consideration of the peculiar requirements of the organization and the nature of the supplies, it is plain that at times the arbitrary limits may seriously embarrass the buyer in his work. They are, however, valuable, because without them the buyer would be tempted, under the provocation of exceptional prices, to tie up more capital in one line than the financial condition of the house would justify.

150. *Possibility of depreciation.*—Although the chief reason for limiting the buyer's purchases is the financial one, he must also constantly bear in mind the peculiar nature of the goods he buys and the possibility that they may deteriorate in quality and depreciate in value. If goods bought to-day would in all cases have the same value at all times in the future, the purchasing agent

might be justified in yielding to the temptations of price and in making purchases beyond the maximum limit. But this is not the case; depreciation is a factor that must enter into all his calculations.

151. *Illustrations.*—The force of this consideration may be illustrated by a few examples. It would be very wasteful for a restaurant keeper to purchase more of perishable commodities than the probable demand would justify. For instance, he must ordinarily buy fresh meat and vegetables only to meet the demand from day to day, while in the case of canned goods he can buy in a low market and safely store the goods until they are needed. The buyer for a clothing store can not purchase for more than a single season, because styles in garments are constantly changing, and clothing left on hand at the end of the season must be sold with a sacrifice of normal profits. In an industry such as the manufacture of automobiles, in which processes are constantly being changed and improvements effected, it would not be advisable for a buyer to stock too heavily with the various kinds of parts, because of the chance of their being superseded by some better devices in the near future. In all these instances depreciation is a factor that the buyer must consider carefully in determining the quantities that it is safe for him to purchase.

152. *The task of the buyer.*—We have seen that although the buyer is always anxious to get the low quantity price, he is constantly face to face with the necessity of limiting the size of his purchases, both on account of the resources and financial policy of his employer, and because of the nature of the articles to be purchased. This dual aspect of the buyer's task makes his problem a difficult one. He must view every prop-

osition from two points of view, and the success of his work is judged by the degree to which he reconciles the two conflicting interests that enter into every decision.

153. *Speculative buying.*—There are times, of course, when the maximum stock figure is exceeded, and when the advantages of the quantity price outweigh the disadvantages of making an unusually large investment in supplies. If there is any possibility of depreciation in the goods purchased, however (and there are comparatively few kinds of goods that do not depreciate in value), the buyer who exceeds the maximum stock limit is purchasing on a speculative basis. Much buying is of this character, and the successful buyer has to take many chances; but even in speculative buying, its basis must be the thoughtful opinion of the buyer consequent upon a careful balancing of the two conflicting considerations that are ever present in his work.

154. *Qualifications of buyer.*—Because of the complex nature of the problem that continually confronts him, the buyer must possess unusual qualifications for his work. The most important of these qualifications may be grouped under the general term, "knowledge." This may be subdivided into (1) knowledge of the house by which he is employed, (2) knowledge of demand, (3) knowledge of goods, including quality and present and prospective prices, and (4) knowledge of the sources of supply.

155. *Knowledge of the house by which buyer is employed.*—No buyer can intelligently carry on his work unless he is completely in touch with the policy of his house. He must know (1) its financial resources, so that he may determine whether he is in a position to demand and receive the most advantageous credit terms; (2) in a general way at least he must know the usual

and unusual demands upon the available funds of the house, so that he may be able to determine the possibility of any heavy buying that may seem desirable; (3) he must know the attitude of the owner or the directors toward the question of expansion or curtailment of production, so that if there are any plans in contemplation affecting the kind and quantity of the output, he may be able to govern his purchasing accordingly.

156. *Knowledge of manufacturing processes.*—In addition to the policies and resources of the house he represents, the buyer must know thoroughly the manufacturing processes through which the raw material passes. The buyer deals with many salesmen. Each one probably handles but a single article or line and in that one field he is an expert. The salesman knows absolutely the exact place and advantages of his article or line in the manufacturing process of the house to which he is trying to sell. He is, therefore, at an advantage over the buyer unless the latter also has a complete knowledge of how the product of his house is manufactured.

The buyer must know the uses for the various things that he buys. A certain article may be made in several grades or qualities, only one of which will answer for the particular purpose for which it is used. Unless this information is in the buyer's possession, he is likely to be misled into the purchase of a grade or quality that can not be used by the factory. So important is this knowledge of processes that often the buyer is given his position because of thorough training in all departments of the factory. If it is important for the salesmen who are to sell the finished product to know the product absolutely through actual experience in its manufacture, it is at least of equal importance that this

same knowledge be possessed by the man whose skill and knowledge are responsible for the factors that enter primarily into the cost of the finished article.

157. *Familiarity with departmental divisions of house.*—The efficient buyer is familiar with the departmental divisions of his house, and with the exact nature of the duties of each division. He buys not only raw material for manufacture but the various tools of the business and the general office supplies as well. In many organizations it is his duty to pass upon the requisitions of department heads or their subordinates for supplies of various sorts. To do this intelligently he must have a complete grasp of the needs of the departments and of the material that is best suited to accomplish their purposes. This particular function of the purchasing agent is one that requires other qualifications besides knowledge, but the first necessity in this work, as in all other branches of the buyer's activity, is knowledge of the wants of the business and of the materials that will satisfy them in the most effective and economical manner.

158. *Acquaintance with important employés.*—Closely associated with knowledge of the departmental divisions and their work, is knowledge of the men who make up the organization. Through his function of buying supplies for all parts of the business—office as well as factory—the purchasing agent is brought into contact with practically all of the important employés.

If he has the power of vetoing their requisitions, a knowledge of their individual characteristics is essential to guide him in this important duty. If a careful, conservative department head sends in an unusual requisition for new and expensive supplies, the buyer will

more readily fill the requisition than he would if it came from a man who was continually ordering unnecessary articles and attempting to install expensive systems without any preliminary test of their efficiency. In rejecting a requisition it must be done in a manner calculated to produce the least friction and unpleasantness, and in the performance of this delicate task a knowledge of the men with whom he is dealing is a valuable asset for the purchasing agent.

We have shown that the most important qualification of the buyer is knowledge and that the class of knowledge he must first acquire is knowledge of the house by which he is employed. We have subdivided knowledge of the house into the following headings, and have shown how each is of importance to the buyer in his work:

1. Knowledge of the house in general, including its financial resources and trade policies.

2. Knowledge of manufacturing processes.

3. Knowledge of departmental divisions and their works.

4. Knowledge of the characteristics of the individual members of the organization.

159. *Knowledge of demand.*—The second class of knowledge that the successful buyer must possess is knowledge of demand. In acquiring this knowledge the man who purchases raw material for a factory has a relatively simple problem as compared with that of the buyer in a retail or wholesale store. The quantity of the various kinds of raw material that will be required to keep the factory running to capacity is usually capable of exact determination. The stock-keeper has a card for each item that enters into the productive process. On this card is shown the minimum amount of that

particular commodity that should be on hand at all times, as well as the maximum quantity that the stock must not exceed.

Under normal conditions it is a relatively simple matter to keep the supply of each item somewhere between the maximum and minimum figures. Although this system takes into account the possibility of orders that will require the maximum output of the factory, it does not provide a mechanical method of determining demand when it is affected by such abnormal conditions as the following: labor troubles that make it necessary to close the plant; commercial crises that result in an unexpected decrease in orders; mechanical improvements that render obsolete part of the stock of raw materials or equipment; changes in popular taste or requirements that affect the demand for the finished product.

No system, however carefully developed, can enable the buyer to foresee the future or to guard against all possible contingencies. Nevertheless the buyer is constantly under the necessity of attempting to foresee the future demand for the things he purchases or for the finished product into which his purchases enter as raw materials. He is successful in this attempt largely in proportion to his experience and to his detailed knowledge of every condition that may have any influence upon demand. He frequently fails, but, in view of the fallibility of human judgment, it is surprising how often the successful buyer is able to foretell accurately the conditions that will obtain in his business.

160. *Buyer for wholesale or retail store.*—We have seen that the factory buyer has certain systematic aids in his purchase of raw materials, although he is by no means entirely relieved of the necessity of judging future demand. The buyer for a wholesale or retail store,

on the other hand, has a more difficult problem to solve. A merchant's stock usually consists of staples and novelties. To the extent that an article is a staple, and is, therefore, in comparatively steady demand, its purchase can be systematized in a manner similar to that in which the factory buyer systematizes his purchase of stock parts for the finished product.

But no such method can be applied to the purchase of novelties. How, for instance, is the wholesale grocer to judge of the probable demand for a new brand of breakfast food? Obviously in the merchandising field, buying inevitably involves a considerable factor of speculation. Nevertheless the buyer's opinion of future demand must always be based upon something tangible, and the surest foundation for successful judging of the future is wide experience in the past and the broadest possible knowledge of the innumerable conditions that influence demands.

161. *Knowledge of goods to be purchased.*—The purchasing agent must know his house, he must know demand, and, in addition, he must know the goods with which he has to deal. He must be able to judge of their quality, and he must have a thorough grasp of the subject of prices, both present and prospective. Price and quality are so closely related that it is unnecessary to treat them separately in this consideration of the buyer's qualifications.

The buyer must know values; in other words, when he makes a purchase, he must know whether he is getting the most that is possible for the amount expended. To do this he must have an intimate knowledge of raw materials, of production processes, and of production costs. Suppose, for example, that a buyer is purchasing iron castings in a competitive market. Their value

is largely dependent on the cost of the raw material, the nature of the foundry processes, and the cost of these processes. To purchase intelligently the buyer must have knowledge of all these factors. If he is purchasing a complicated piece of machinery, the problem is more difficult than in the simple case of the purchase of iron castings. Too often the careless buyer judges of the merits of articles only by comparing one with another instead of with the ideal product which should be the standard of comparison. The latter is the method that most successful buyers use.

If a buyer is required to purchase at different times, a large variety of articles, it is obvious that it is a physical impossibility for him to familiarize himself with all the articles he is required to buy. At least, he can not do so until he has had long experience in his duties. In such a case it is necessary for him to analyze the situation and to select the articles that enter most frequently into his purchases and that, because of their nature, present the greatest difficulties to the purchasing agent who is unfamiliar with them. This list should receive his first study. When he has secured a working knowledge of the essential details of the articles on the list, he should gradually add to them, until he has obtained a fair familiarity with all the goods that he may be called upon to handle.

This suggested method of acquiring familiarity with raw materials and productive processes is probably of too general a nature to be of much practical value to the ambitious buyer. The fact that it is general, and that nothing more definite is possible within the limits of a general discussion of the subject of buying, is indicative of the difficulty of the buyer's problem. The successful buyer is a store-house of detailed information.

Systems of various kinds help him in accumulating, filing, and using data; but behind the system must always be the ability to analyze goods and processes and determine the things about them that ought to be known, to investigate the essential points, and to store the acquired information in such a way that it can be employed immediately whenever necessity arises for its use.

We have said that the purchasing agent is chiefly guided in his determination of values by a knowledge of raw materials and of productive processes. There are, however, other items to be taken into consideration, such as profits, selling and administrative expenses, and the like. It is far more difficult to acquire knowledge of these factors than it is to acquire knowledge of materials and processes.

Selling costs, for instance, vary greatly in different houses handling the same line, and no buyer can expect to do more than approximate the cost of this item. The same thing is true to some extent, of course, of production costs. In modern factories, however, there are by no means the variations in these costs that there are in the costs of selling.

The increasing application of the principles of scientific management is doing much to eliminate the uncertainties of production costs; and, while there probably will never be uniformity in the cost of producing identical goods in any two factories, it is becoming more and more possible for the buyer who has made a complete study of the cost of producing a certain article in one factory, to make a fairly satisfactory estimate of the cost of producing a like article in any factory where similar productive methods are employed.

162. *Judging future prices.*—In judging future prices the buyer must depend on the same things that

guide him in judging future demand; namely, past experience and wide knowledge. The buyer who foresees an era of low or of high prices and who adjusts his purchases accordingly, is in a position to save his employer a great deal of money.

The average man who attempts to determine which way the market is going bases his guess on insufficient information or on no information at all. The small speculator who attempts this feat usually loses only his own money. The buyer who follows the same tactics stands a chance of ruining his employer.

Any buying on the basis of future prices is speculative and dangerous. If it is attempted, the buyer's judgment must be based on the most complete information that it is possible to acquire. For example, the buyer for a large cotton mill is keenly interested in the possible fluctuations in the price of raw cotton. No item of news bearing on the cotton supply escapes his attention. He is equally interested in the appearance of the boll weevil in Texas, in a threatened mutiny in India, and in the failure of the cotton crop in Egypt.

In like manner, the tea buyer for a wholesale grocer interprets in terms of future prices such news items as an agreement of the Powers affecting the "open door" in China, the Japanese annexation of Formosa, and the imposition of a new duty on tea by Congress. These examples suggest the range of information that the buyer must possess if his judgments of price movements are to be anything more than mere guesses.

168. *Knowledge of sources of supply.*—The last class of knowledge that the buyer must possess is knowledge of the sources of the supplies that he is to purchase. It is possible to acquire this information accurately, and to systematize it in such manner that the

data is always readily accessible. In general, the buyer must know the following items about the business houses from which it is possible to purchase the goods he desires: location and facilities for delivery; ability to keep promises; financial responsibility; production methods; selling methods.

164. *Importance of location of various houses.*—Obviously, the location of the various houses that can supply the buyer's wants is an important factor in determining which one is to secure the order. If the same quality of coal were mined in Colorado and in Illinois, the man in Colorado who wanted that grade of coal would be foolish to order it from Illinois. Location also has an important bearing on the ability to ship safely and quickly. A small order for furniture for a Milwaukee dealer would go more quickly and with a greater chance for safety from Grand Rapids than from some point in North Carolina. Facilities for delivery have a close connection with location. In placing an order with a local dealer the buyer is influenced by the consideration of whether he must send his own truck for the supplies, or whether the dealer will deliver them. An order for grain to be delivered by rail would probably not be placed with a dealer who did not have proper elevator facilities for unloading it into cars.

165. *Ability of salesman's house to keep his promises.*—To obtain an order, an irresponsible salesman may make any promises respecting such items as quality of goods and time of delivery. The buyer must know whether the salesman's house is capable of keeping these promises. A certain buyer wanted a supply of iron bolts for an urgent purpose. He had been dealing with Messrs. A. & B., and he knew that they could deliver the goods in the necessary time. Messrs. X. & Y.,

however, made a bid for the business at an exceptionally low price. They promised prompt delivery, and the buyer agreed to give them the order. When the agreed-upon delivery period had expired, only a small proportion of the total order had been filled. The low price that was offered had tempted the buyer to run the risk of the new firm's not being able to keep their promise of delivery. This method of buying does not pay; the successful buyer must have some good reason for believing that the house that gets the order can fill it in all of its details.

166. *Credit rating of seller.*—Closely related to the ability to keep promises is the financial responsibility of the houses with which the buyer deals. Many a large contract has gone to a small concern which did not have the resources to complete it. The results in such cases are always annoying, and frequently productive of financial loss to the purchasing house. The buyer can not afford to deal with houses that are not as fully able to fill the order as his house is able to pay for the goods. In other words, in the placing of a large order the credit rating of the seller is as important as that of the buyer.

167. *Important to know costs.*—The importance to the buyer of possessing a knowledge of productive processes has already been considered in connection with the discussion of the relation between value and the cost of productive processes. It is of importance to the buyer in another way. Suppose, for example, that he wants to purchase machine tools, and that he is visited by a salesman representing a manufacturer who, the buyer knows, has in operation a satisfactory system of cost accounting. It is possible for that manufacturer, then, to know the cost of his product with a reasonable degree of accuracy. To this cost he presumably adds a fair

profit, and the result is a price that the buyer has little chance of "beating down"; because few manufacturers will accept an order at or below cost when they really know what the cost is. They will not do so unless they are willing to sell below cost to secure an order that may result in profitable future business.

If the buyer knows of the operation of the manufacturer's cost system, he can usually save his own and the salesman's time by accepting the first quotation as final. On the other hand, a buyer may be interviewed by a salesman who represents a house in which cost accounting is unknown or inefficiently operated. Neither the manufacturer nor the salesman knows the real cost of what he is selling. He usually has a variable scale of prices, and if the buyer knows of the absence of suitable cost methods, and if he is shrewd enough, he may be able to force down the price to a point actually below the cost of production.

There is nothing ethically wrong in a buyer's securing any price that it is possible for him to obtain, if he avoids misrepresentation and uses only honest methods; because no independent supplier can be forced to make any price that he does not wish to make. If a manufacturer's business methods are such that he does not know his cost of doing business, and if he consequently permits his salesmen to make unprofitable prices to get an order, the buyer is perfectly justified in taking advantage of such a condition.

168. *Selling methods of houses dealt with.*—The last important item for the buyer to know about the houses with which he deals is their selling methods. Many manufacturers, even when they have an exact knowledge of the cost of producing and marketing their product, consciously make their list prices considerably in

excess of the figure they will be satisfied to receive. This is done sometimes to conceal the real selling prices from competitors; at other times, to make buyers think that they are being specially favored when they are granted large discounts from the list prices; and in still other cases, because competitive conditions in the business are such that the manufacturer expects buyers to question every quoted price.

There are some buyers whose principal qualification is the ability to "beat down" the price, and in anticipation of these tactics some manufacturers and dealers always make their first quotation considerably in excess of the real market value of the thing to be sold. When such houses, however, deal with a buyer who never practices the "offer" method of buying, but accepts or rejects a proposition on the basis of the first price quoted, they have to modify their usual procedure and make their first quotation a fair one. It is as important, therefore, for the salesman to be familiar with the methods of the buyer as it is for the buyer to know the selling methods of the houses that solicit his patronage.

169. *Variable price scales.*—Many reputable concerns still have a variable scale of prices, and there are highly successful purchasing agents who continue to look with suspicion upon every quoted price. But as fixed prices are doing more than any other one thing to dignify the profession of salesmanship, so buyers are generally coming to believe that they can best serve their exployers and save valuable time by dealing with houses that quote but one price and that refuse to deviate from that figure.

170. *Tact in buying.*—We have shown that the first qualification of the successful buyer is knowledge; we have analyzed this knowledge that he must possess, and

have considered each of its main sub-divisions. The second important qualification is tact. Tact is the quality that enables its possessor to get along with others without friction. First of all, tact is essential to the buyer in his relation with his fellow employés, and then in relation to the salesmen who call upon him. We have shown that one duty ordinarily assigned to the purchasing agent is the acceptance or rejection of requisitions for supplies from the heads of departments. In exercising this function it is necessary for the buyer to know intimately the needs and work of the different departments; but it is far more important for him to possess and to exercise tact, so that his veto of a requisition may not cause ill-feeling, and be destructive of the co-operation that should exist between all departments.

171. ***Friendly relations with salesmen.***—A tactful buyer secures the good will of the salesmen who call upon him, while one without this quality is likely to antagonize them. No man is fitted for a purchasing position unless he is able to gain and hold the regard of those with whom he comes into contact. It is true that the salesman is the one who is most often seeking the favor of the buyer, but it is just as true that the salesman is in a position on many occasions to do substantial favors for the buyer whose treatment of him has gained his regard. It is common practice for a salesman who has some real bargain to offer to place the proposition only before those buyers whom he counts as his personal friends.

A friendly salesman can also frequently do a great deal in the way of facilitating deliveries, obtaining favorable credit terms, and giving the purchaser trade news that is of direct value to him in his work. It is distinctly worth while for the buyer to cultivate the good will and

friendship of the men with whom he deals, and the most potent factor in this endeavor is the possession of the quality of tact.

172. *Other qualities important for buyer to possess.*—Knowledge and tact are not the only qualities that the buyer should possess, but they are so exceedingly important that they have demanded separate and detailed consideration. Common-sense, intelligence, ability to read human nature, decision, industry, loyalty—these and many more are essential to success in his work. The man that has proved the possession of all the necessary qualities of the successful salesman frequently makes the best buyer. He is engaged in a big work; narrowness in any particular will disqualify him for success, and he must strive for the development of all the qualities that efficiency in any line of modern business demands.

173. *Who should do the buying?*—In the small retail store the proprietor does all the buying; and in some of the largest industrial corporations the careful purchase of immense quantities of valuable raw material is so important that the president of the corporation reserves this duty for himself. These examples are typical of one method of modern buying.

The vital importance of this function is so generally recognized that in many establishments the owner is unwilling to delegate the purchasing to any of his subordinates. He is willing enough to allow others to sell for him, because he can fix the prices, and even the most inefficient salesman can not immediately bankrupt him or permanently alienate all his trade. An inefficient buyer, however, is in a position to do irreparable injury to his employer; it is possible for a single unwise purchase to wipe out a season's profits. It is only natural, therefore, that the proprietor should retain immediate super-

vision over the buying until the growth of the business makes it impossible for him to retain control of all the details of the work, and until he has found a man who is capable of relieving him of this important responsibility. In well-developed retail and wholesale establishments we have found that the heads of the various goods sections or departments are entrusted with the buying as well as with supervision over the selling in their respective departments.

Each buyer knows more about the goods he handles than the owner or general manager could possibly know. In addition to his knowledge of the goods themselves, the buyer is or should be an expert on the subject of demand, and, if he is honest and loyal and thoroughly trained in his work, his employer's interests are safe in his hands.

174. *Factory purchasing agents.*—In the same manner that the development of a retail or wholesale business requires the dealer to abandon the detail of buying, the growth of a factory organization renders it impossible for the individual manufacturer to give his personal attention to the purchasing.

When it is necessary to delegate this duty, one of two methods may be adopted. First, a member of the firm or an officer of the corporation may be delegated to give his time to this work. If there are three members of a firm or three active officers of a corporation engaged in manufacturing, a convenient division of authority is to assign to them, respectively, supervision over production, selling, and buying. In many large organizations the general manager, although he may not attend to the actual detail of the buying, acts in an advisory capacity to the purchasing agent, and keeps a careful watch on present and prospective prices.

The second method of factory buying is to assign the work to an employed purchasing agent. This procedure is common. Its chief disadvantage is that it places the direction of an activity that has a vital bearing upon profits, in the hands of one who has only a limited financial interest in the business. Its great advantage is that it places buying in the hands of a trained buyer who can specialize in this activity and who can attain a degree of proficiency that can be achieved in any line only through specialized training and experience.

In view of the great opportunity for disloyalty and "graft" in their calling, the purchasing agents of the country present a striking example of the general loyalty of employés to their employers and of the basic honesty which is responsible for the confidence on which our business system is built.

CHAPTER XV

SYSTEM IN BUYING

175. *General systems and specific conditions.*—No universally applicable system was ever formulated for any branch of business activity, nor can it be, because every industry and every organization has its individual peculiarities which must be taken into consideration in developing a system to fit the business. In the consideration of any business activity all that is possible is to present the general outlines of a typical system. Even this is difficult in the case of purchasing, because the duties of buyers as a class are not clearly defined, and in some organizations the authority of the purchasing agent may be much more extensive than in others. Generally speaking, buyers may be divided into two classes:

1. Those who confine themselves strictly to placing and tracing orders, and have no supervision over the store-room.

2. Those who, in addition to placing and tracing orders, are in charge of the material after it arrives and are responsible for its distribution in the factory or office.

It is evident that some of the activities of the second class of buyers are not concerned strictly with purchasing, but are only incident thereto. In other words, the determination of what goods are to be purchased and their storage and distribution after receipt are not necessarily purchasing functions. They have been frequently added to the duties of the purchasing agent simply be-

cause they are more directly connected with his activities than with those of any other member of the average organization. Because they are incidental, however, and not fundamental duties of the buyer's position, we shall not consider them in any detail in this discussion of purchasing methods. It is our purpose to consider chiefly the systems that guide the buyer in his relations with his sources of supply—systems that help him in his essential duties of placing and tracing orders.

176. *Requirements of an adequate purchasing system.*—Any adequate purchasing system must make provision for the following:

1. A method of classifying and filing important data.
   a. The articles that have to be bought.
   b. Where they can be bought.
   c. Prices at which they are offered.
   d. Where, when, for what, and in what quantities they have been bought in the past.
2. A method of ordering and of tracing orders.
3. A method of checking deliveries and invoices.

177. *Subject index.*—The first essential in the buyer's system is an accessible record of every article that he may be called upon to purchase. This is usually kept in a subject index on cards similar to Form No. 1. The cards are arranged in a drawer or desk cabinet and are filed alphabetically with suitable index cards to enable the buyer to find quickly any desired subject. If the purchasing agent is required to buy different sizes or grades of the same article, there is a distinct card for each size or grade that may be needed. Each kind of article and each grade or size has a permanent stock number, which appears on all records in connection with the name or other reference to the goods. The purpose of each subject index card is to show the names of the

Subject Index

	Stock No..............................
.... Name and Grade of Article	

Suppliers

Form No. 1

Firm Index

Name.. Tel. No....................

Address..

Nature of Business..

Date	Catalog, List, or Circular	File No.

Form No. 2

various houses that can supply the particular article whose name and stock number appear on the card. If all the names of suppliers can not be placed on one card, as many cards are used as may be needed.

178. ***Firm index.***—To supplement the subject index it is necessary to maintain a file that is usually known as a firm index. Form No. 2 shows a typical arrangement of the cards for the firm index. The cards are filed in the same manner as those that comprise the subject index; and the two sets of cards are kept either in adjacent drawers or in twin desk cabinets. One is merely a cross reference for the other.

The firm index file contains important information concerning every house that might possibly supply the buyer with any of the material that he purchases. Its value is in proportion to its completeness. There is a separate card not only for each supplier from whom purchases have been made or whose catalogues are on file, but also for every other firm of whom the buyer may learn, and who deals in the material that the buyer is required to purchase. The word *firm* in the name of the index is not intended to restrict the use of the file to the recording of information concerning supply houses that have a partnership form of organization. Used in a non-legal sense, the word is simply a customary and convenient generic term for all business houses, irrespective of whether they are conducted as individual enterprises, as partnerships, or as corporations. Each card in the firm index contains the following information:

1. Name and address of the supplier, with telephone number.

2. Nature of the supplier's business—whether dealer or manufacturer—with some indication of the general character of the supplies handled.

3. Date when catalogues, price lists, etc., are received.

4. Nature of the data filed—whether catalogue, general circular, price list, direct quotation, etc.

5. File number showing where the selling literature of the supplier is to be found.

When the subject index and firm index are first introduced as the basis of the buyer's systematic record of purchase data, a complete list is made of all the material for which it is possible to foresee any need. The items in this list are copied onto the subject index cards. It is then necessary for the buyer to obtain a list of suppliers. This is compiled from his personal knowledge, from information secured from others, and from advertisements. When he learns of a house dealing in any article on his subject index, he enters the name of the house on the card referring to that article. At the same time he makes out a card for the firm index, giving all the information he may possess concerning the supplier. If he has their catalogue on file, he makes a record of that fact on the firm index card, and he also makes proper notation in the "File Number" column, to enable him to find the catalogue readily. If the information from the supplier is in the form of a special price list, circular, or direct quotation, instead of a catalogue, that fact is noted and the necessary file reference recorded. As will be explained later, however, if the information is in the form of a direct quotation, no reference to the catalogue file is necessary.

179. *Necessity of cross-references for buying data.*—There are several reasons for having two sets of index cards instead of combining all the information in one file. Among them are the following:

1. Each catalogue must be filed with due regard for its accessibility. If only one index were kept and the

cards were filed *according to articles or subjects,* when a catalogue was received it would be necessary to record its receipt and file number on every card in the file that referred to any article listed in the catalogue. Obviously, this would be out of the question.

2. If, on the other hand, the single set of index cards were filed *according to the names of the supply houses,* the buyer would not be able to turn to any particular card and find thereon the names of several dealers who might supply him with the article he desired to purchase.

If two index files are used, the buyer who wants to purchase an article can look up the proper card in the subject index. There he will see the names of dealers handling that article. He can then look up those dealers in his firm index, and be referred immediately to the price information that has been received from them.

180. *Catalogue file.*—The filing of catalogues and other price data is an important feature of the buyer's work. A good file is made by dividing a series of shelves into pigeon-holes by the use of vertical partitions. Each of these pigeon-holes should be large enough to contain several catalogues. When a catalogue is received, it is usually bound with a heavy cover, on the back of which is placed a number coinciding with the number of the pigeon-hole in which it is to be filed. The necessary notation is then made on the proper card in the firm index, and the catalogue is filed away. This same procedure is employed in the case of price lists and other circulars. It is customary to have all the catalogues from the same house bear the same number. For instance, Messrs. Smith & Jones' number might be 163. Their first catalogue would be numbered 163A, the second 163B, the third 163C, and so on. All of the catalogues would be found in file compartment Number 163.

181. ***The quotation file.***—It has been suggested that certain price information, not contained in catalogues or price-lists, requires a special method of filing. For this purpose a quotation file is maintained. It consists of a series of cards on one side of which may appear the arrangement of columns and headings shown in Form No. 3. A separate card is provided for each article on which

Quotation File Card

				Stock No..............
.... Name and Grade of Article				
Supplier	Date	Price	Terms	Remarks

Form No. 3

a special quotation has been received. The cards are filed alphabetically according to the names of the articles to which they refer, and no cross-reference file is necessary other than the firm index.

Price data in the quotation file are received from those suppliers who publish no general catalogue or price-list, or from those who wish to modify their published prices on individual articles for any reason whatever. Special quotations are usually made either by letter or by some representative of the supplier in person. When a quo-

tation is received, the name of the supplier is recorded on a card in the quotation file, together with the date of the quotation, the price, the credit terms, and other data that may be deemed advisable. If the quotation is received by letter, the communication is filed under the name of the supplier from which it came, and it can be referred to easily, if further details are desired, by referring to the date of the letter on the card in the quotation file.

182. *The order record.*—The information contained in the subject index, the firm index, and the quotation file, is not all the purchase data that the buyer should have in the form of permanent, accessible records. He should also have easy access to the record of previous purchases. This information is readily recorded on the back of the cards in the quotation file. It would probably be more correct to say that quotations are recorded on the back of the cards in the order record file, because every article purchased should have a card in the order record file, while special quotations are usually received on only a small proportion of the articles that are purchased. The quotation file, however, is logically the third in the buyer's system, and for that reason it has seemed advisable to discuss it before the order record. The only reason why it is suggested that the record of quotations and of orders be kept on the same cards is that in both cases the cards are filed alphabetically by articles handled, and it is a saving of space and material to utilize both sides of the cards rather than to duplicate the entire set. A convenient method of providing for the necessary data on the order record cards is shown in Form No. 4.

If these cards are properly written up, they present the following data regarding all articles that have been purchased:

1. Name of the articles, with size and grade if more than one kind have been bought.
2. Dates of previous orders.
3. Record numbers of previous orders.
4. Names of suppliers.
5. Quantities purchased.
6. Prices charged.
7. Dates when the goods were received.
8. General remarks; for example, condition of goods when received.

Order Record

Stock No.............

....

Name and Grade of Article

Date	No.	Supplier	Quantity	Price	Date Rec'd	Remarks

Form No. 4

(Reverse Side of Form No. 3)

Of course, with simply the order number the buyer should be able to obtain all this information by looking up the original order in his files. It is of great advantage to him, however, to have all the foregoing data immediately before him where he can turn to it readily and utilize it in determining where to place his orders. Such a record, also, is of value in enabling the buyer to fol-

low the movement of prices for any particular commodity, and from past changes to draw some conclusions as to future fluctuations.

It has been stated that the first essential of any buying system is to provide for classified purchase information. The four card forms that have been described ordinarily give this data in sufficient detail. With such a system in operation the buyer knows what goods he requires, where they can be bought, the prices at which they are offered, and where, when, for what, and in what quantities they have been purchased in the past.

183. *Placing orders.*—The second requisite of a purchasing system is a method of placing and tracing orders. It should be remembered that in the elementary system that we are considering the buyer does not have to determine when and what to order. This is decided by the general manager or the stock-keeper, by whom a purchasing requisition is sent to the purchasing agent. Upon receipt of the requisition the buyer uses the various classes of data that have been described, and decides with whom he will place the order. He then fills out a regular order blank, which usually provides for the following data:

1. Name and address of house from which the goods are ordered.

2. Exact quantity and kind of goods desired.

3. Price at which the buyer understands the shipment is to be billed. (This item is not frequently found in orders.)

4. When goods are desired.

5. Shipping instructions.

6. A serial number with a request that the number be placed upon the shipper's invoice.

7. Conditions under which the order is placed; as, for

instance, compliance with the instructions about placing order number upon invoice, making delivery when requested, allowing certain credit terms, etc. The order is ordinarily made in triplicate by the use of carbon paper, each impression being on paper of a different color. The original order goes to the house that is to supply the goods, the first carbon copy is sent to the receiving clerk or stock-keeper, and the last carbon copy is retained by the buyer. The purpose of sending one copy to the receiving clerk will be explained later. For the present we are interested only in the copy that is kept in the office of the purchasing agent. This is used to trace the order and to check the invoice when the goods are received. For this purpose the back of the buyer's copy of the order has spaces provided for four classes of information:

1. Correspondence sent.
2. Correspondence received.
3. Goods received.
4. Invoices received and checked.

184. *Tracing orders.*—An actual example will illustrate how the buyer keeps track of orders that he has placed. Suppose, for example, that an order is forwarded to a supplier on the fifth of the month, and that an acknowledgment may be expected by the eighth. The buyer places his copy of the order in a folder which bears the number 8 in his "tickler" file. If an acknowledgment is received on or before the eighth, the order is taken out of the No. 8 file compartment, and the fact that acknowledgment was received, with the date, is noted on the back of the order under the heading "correspondence received." If acknowledgment is not received by the eighth, the order automatically comes to the buyer's attention on that date; he writes requesting

immediate acknowledgment, and places the order ahead in the file folder representing the date on which he can reasonably expect to receive a reply. At the same time, on the back of the order under the heading "correspondence sent," he makes notation of the fact that he has had to write for acknowledgment, with the date of his letter.

When the acknowledgment is received, it is necessary to place the order ahead in the "tickler" file so that delivery can be traced if the goods do not arrive within a reasonable time. The supplier may have promised delivery on a certain date, or it may be necessary for the buyer to estimate the probable delivery date. Under either condition the order is placed in the folder bearing the same number as the day of the month when delivery is to be expected. If the goods are not on hand on that day, the order is taken out of the file, and exactly the same method of tracing is pursued as was the case when the acknowledgment did not arrive promptly. When the goods are received, notation is made on the back of the order under the heading "goods received." If partial deliveries are made at intervals, as is frequently done in the case of large orders, each separate delivery is noted on the back of the order, with the exact amount delivered in each instance; and the order is not considered filled until the total amount ordered has been received.

185. *Checking deliveries.*—Before we follow the buyer's copy of the order to the time when it can be removed from the "tickler" file, we must consider the system by which the buyer knows when the goods have been received. We have said that one copy of the order goes to the receiving clerk. This is to inform him that the goods are expected, so he can make room for them in the store-room. When the goods arrive, he checks the quantities with the order and makes notations of any

defects. The copy of the order is then returned to the buyer. This method is simple, but it has certain disadvantages. If the receiving clerk has before him an order showing the exact quantity of the goods to be received, he is likely to be careless in actually counting the number of pieces in the delivery, and to take it for granted that the number ordered were received. To avoid this difficulty it is sometimes customary to use a short piece of carbon paper in making the first carbon copy of the order, so that the *quantities* of the various articles ordered do not appear on the receiving clerk's copy of the order. He then has to count the shipment and to place the exact figures on the order sheet before he returns it to the buyer.

186. *Checking partial deliveries.*—The method of guarding against carelessness in checking orders that has been described in the preceding paragraph is feasible only when all the goods ordered are delivered at one time. When partial deliveries are frequent, a system similar to the following is advisable: If a copy of the order is sent at all to the receiving clerk, it is simply to give him advance information of the arrival of the merchandise, and it is not used in checking deliveries. At the close of each day the receiving clerk fills out a blank form that gives the following information about every delivery that has been made during the day:

1. Name and address of shipper.
2. Description of goods.
3. Quantity of goods.
4. Apparent condition of goods on arrival.
5. Method of delivery, name of railroad, etc.

With this sheet before him, the buyer can go over his unfilled orders and make the necessary notations of

deliveries on the backs of his copies of the orders. By this system partial deliveries are checked and reported to the buyer as readily as complete deliveries.

The final result of any system of checking and reporting is to inform the buyer of the status of his orders. When an order has been only partially filled, it is retained in the "tickler" file, and so placed as to come up automatically for attention on the date when another shipment can be expected. As heretofore explained, every letter written by the buyer or received by him from the supplier with reference to any order, together with a record of all deliveries, is noted on the back of the order. If at any time he desires more detailed information than is contained in the brief record on the order itself, the notations enable him to refer to his correspondence file for such letters as he may wish to see.

187. *Checking the invoice.*—When the order is finally filled, an invoice accompanies the shipment or is sent by mail to the consignee. The invoice ordinarily goes immediately to the buyer. He frequently has a rubber stamp with which he may provide for information of the following nature to be given on the face of the invoice:

Goods received . . . .
Price O.K. . . . .
Extension O.K. . . . .

Distribution

Account No. . . . .$
Account No. . . . .$
Account No. . . . .$

Total. . . . .$

The buyer knows whether or not the goods have been received, but in order to have a double check on this item,

he sends the invoice to the receiving clerk, who has kept a record of all receipts. The receiving clerk places his name or initials, with the date, after the phrase "goods received." The invoice is then returned to the buyer. Either he or one of his clerks compares the prices charged with the quotations or catalogue figures, and verifies the extensions. The name or initial of the person who makes the comparison and checks the multiplication is inserted in the proper place, with the date of the operation. After the purchasing agent has made his own record of the receipt of the goods and of the checking of the invoice, his duties in regard to the order are completed. His copy of the order may be removed from the "tickler" file, and filed permanently according to the order number. The invoice is sent to the stock clerk or to some one else who knows the uses to which the goods that have been received are to be put, and these uses are indicated by noting on the invoice the accounts to which the purchase is to be charged. The invoice is now ready to go to the accounting department for entry upon the books of account, and for payment.

The details of a purchasing system may differ greatly in individual cases, but most of the features that have been described are found in the majority of houses. Perhaps the greatest variations are found in the method of handling the invoice after its receipt. It is not at all necessary for the successful operation of the system that the employés who check the invoice and who indicate the distribution of the charge among the various accounts be the ones we have mentioned. In fact, in an organization that has a system of cost accounting in operation, the method of determining the distribution of the charge is much more complicated than the simple system we have described. This is purely an accounting matter,

however, and the variations in the methods of handling it have no bearing on the purchasing system.

188. *The perpetual inventory.*—We have considered only a method of purchasing goods after their need is known. Few buyers, however, have so simple a task. The purchasing agent is frequently in charge of the supplies, and he must have a system that will enable him to know when purchases are necessary. This information is customarily obtained from a form known as a perpetual inventory. A suggestive arrangement of this record is shown in Form No. 5. A card or loose-leaf record sheet is provided for each kind and size of article used. The data on this record gives the buyer the following information:

1. Minimum and maximum quantities of the article that should be on hand, together with an average that may be considered as normal.

2. On what dates and in what quantities supplies of the article have been ordered.

3. Amounts received on any date, as well as quantities taken from the store-room for use in the factory, office, or store.

4. From the above data, a daily balance of stock on hand is obtained. This figure, in comparison with the minimum, normal, and maximum figures at the top of the form, tells the buyer whether or not new purchases are necessary.

5. For the purposes of cost accounting, the prices of goods ordered and received are frequently shown on the perpetual inventory. This information, however, is not necessary for the purposes of the buyer, because the same data is given on his order record. For that reason no provision is made for it in the suggestive arrangement of columns in Form No. 5.

Perpetual Inventory

.... Stock No. ....
Name and Grade of Article

Minimum .... Normal .... Maximum ....

Date	Ordered		Received		Disbursed		Stock on Hand
	Order No.	Quantity	Order No.	Quantity	Requisition or Job No.	Quantity	

Form No 5

189. *Modification of the typical purchasing system.*—It should be remembered that the systems and forms that have been described are of the most simple character. There may be, and often are, many other forms for use in making requisitions upon the purchasing agent and in the disbursement of supplies from the store-room. Ordinarily, however, they are not immediately concerned with the strictly buying activities, and for that reason it is not necessary to give them consideration in a general discussion of the duties and methods of the purchasing department. The essential purchase data is provided by the forms that have been described. There may be variations in details, and there may even be additions to the number of forms that comprise the system. The peculiar requirements of individual businesses, of course, always determine the number and kind of forms to be used. It should be borne in mind, however, that the usefulness of any form is not the only thing to be considered in determining whether it is to be employed. Every form requires a certain amount of clerical labor to record the data for which it makes provision, and sometimes the value of the information is not worth the amount of time and energy necessary to record it. The value of any form, therefore, must be determined by balancing its usefulness against the difficulty of its preparation. If the former factor is outweighed by the latter, the form should not be used.

190. *System in retail buying.*—The purchasing system that has been described applies particularly to a manufacturing industry. Its essential features, however, are equally applicable to a retail store, but with this very important modification in mind—it is usually impracticable to keep an accurate stock record of every article that is handled. In a grocery store, for instance,

it is out of the question to maintain a perpetual inventory that will show every cake of soap or pound of sugar or can of corn that is sold. The smallest units that the buyer needs to consider in the case of articles of this character are boxes of soap, barrels of sugar, and cases of canned corn. In other words, whenever an original package is broken, it appears on the buyer's records as having gone out of stock.

The small retail store that purchases a large part of its stock from a single jobber would scarcely require all the forms that have been considered. It would certainly not need to maintain a firm index, and possibly the quotation file would not be of value. The subject index, the order record, and the perpetual inventory, however, could be used to advantage even in a very small establishment. Retail stores are frequently almost entirely lacking in system in their buying methods. Many dealers order only when a salesman calls upon them. Then they hastily look over their stock, or allow the salesman to do it for them, and make up an order according to the result of this brief observation. It is a common experience for a retailer to be "out" of an article for which there is a steady demand. Almost invariably the cause of this annoying situation is lack of system in buying.

There are some dealers who—paradoxical as it may seem—permit a traveling salesman who has gained their confidence to order for them what he thinks they need, and there are even a few who allow a jobber a hundred miles away to send on such an assortment and such quantities of goods as he may deem proper. The dealer who pursues any of these methods is not in line for the greatest success. It is entirely right for him to accept the advice of those who may be more experienced in

stocking up a store than he is, but he is a poor merchant unless he learns to do his own buying. If he does not do so, it is because he does not know his own stock, and the reason for his ignorance is usually lack of system in his business.

There is no retailer who can not use a carefully developed buying system to advantage, and in the largest and most successful stores the purchasing methods are as carefully worked out as they are in the most highly developed manufacturing organization.

191. *The jobber's purchasing system.*—The jobber is in a more favorable situation than the retailer with respect to his ability to keep accurate stock records, because he does not ordinarily deal in broken packages. There are some jobbers, however, who are as lax in their buying methods as are many small retailers, but their limited success is evidence of the fact that carelessness in buying is as fatal to volume of business and to profits, as carelessness in any other of the important business activities. The wholesale dealer purchases from a large number of manufacturers and he usually handles a very great variety of articles; if he is to be able to fill the orders of his customers at all times, he must use systematic methods in order to keep his stock complete. The subject index, the firm index, the quotation file, the order record, and the perpetual inventory provide detailed purchasing information that is as important to the jobber as it is to the factory buyer. The buying in a wholesale house is usually done by departments, and there must, therefore, be a distinct purchasing system for each department. This is also the case in retail stores in which there is departmental division of the buying. As a result of this characteristic feature of the buying in wholesale and retail establishments, certain changes in the typical factory

buying system are necessary, chiefly with respect to the arrangement of some of the forms and the routine of orders.

Whatever may be the changes in detail, due to the requirements of the individual business, the general nature of the buying data to be recorded remains approximately the same in all instances; and there are few industries in which the demand for a suitable method of systematizing the purchasing can not be met by some application of the fundamental principles that are at the basis of the system described in this chapter.

PART II: CREDIT AND THE CREDIT MAN

CHAPTER I

NATURE OF CREDIT

1. *Relation of confidence to business.*—Confidence is the basis of all business relations, which simply means that in order for business to be carried on men must trust one another. In that stage of society when men only exchanged goods when there was opportunity for personal inspection, and where the actual goods passed from one person to another, a certain amount of confidence must have existed between the traders. But this was the confidence of a condition of truce rather than a trust in the commercial honesty of either of the barterers. Men were primarily fighters in those days, and the exchange of goods by barter was simply an improvement upon the still earlier method of the transfer of goods through conquest.

When men began to surrender their possessions by means of barter rather than by articles of capitulation, there was evidence of a growth of confidence between them which at least showed that each felt secure of his personal safety during the trade. The development of society from the earlier condition of perpetual hostility between individuals, through the various stages of hostile distrust between families, clans, tribes, nations and races, to the time when the world holds that "each man's word is as good as his bond," has been and will be of slow growth. This development, to be sure, is not

complete as yet, but it can be measured by the extension of man's confidence and faith in man. And, although nations still build battleships to protect their commercial interests, nevertheless it has become universally acknowledged that confidence is the basis upon which our whole business structure rests.

2. *Contracts support confidence.*—During this long evolutionary period, society encouraged the growth of the spirit of confidence by various means, and as men often describe a thing in terms of the means by which the object was accomplished, it is well to note by what means society has encouraged and protected men's confidence in each other. The law of contract has been one of the chief means in accomplishing this end. Hence we find the lawyer describing the growth of civilization as a development from a condition of status to a condition of contract. That is, under the earlier condition, society decreed that every man had a right to carry on his method of making a living with the assurance that his economic relations with other men would be protected so long as his actions conformed to the customary usages. So men paid customary rents, received customary wages and charged customary prices; in fact, business relations of all kinds were limited and restricted by the customs which had been established by earlier generations of business men. So long as changes were slow and few, men did not feel the restrictions imposed by the necessity to conform to usages established by previous generations, but as commercial and business relations were extended, society found that greater individual freedom and initiative were necessary. It was no longer possible to find safe guidance in the customs of bygone ages for the newer and larger business relations. It became necessary to permit each individual to enter into a bargain

upon such terms as he felt were most advantageous to himself. He could no longer be bound by customs more applicable to a past generation than to his own environment. Men therefore formed contracts with one another, pledging themselves to the performance of some act in the future. As this element of future time entered into men's business relations more and more, it became increasingly necessary to protect the confidence upon which these business relations rested. Therefore we find to-day that the basic law of the business world is the one which severely punishes any act impairing the obligation of a contract. So closely allied are the two ideas of contract and confidence that they are sometimes united into one concept, called credit. When so united credit is defined as "a right of action," which may be called the legal concept of credit.

3. *Money a sign of economic progress.*—Various measures are used in determining the progress of society, but perhaps there is none more illuminating or suggestive than that which gauges civilization by the readiness and facility with which exchange of possession or ownership takes place. Under a system of exchange where ownership was surrendered by one person to another through barter, the number of transfers was necessarily limited by many causes too evident to mention. As soon, however, as men could trust to a common medium of exchange which in time was called money, they were no longer so closely tied to time and place in order to effect a transfer of their property. But the change from "barter" to a "money" economy means more than a substitution of one system for another. It signifies the development of society from the low plane of ignorance and suspicion to a higher plane of intelligence, wider information and increased confidence. So

thoroughly did the advantages of the "money" economy impress itself upon the people of that period, that for centuries they believed that money was identical with wealth itself. With such universal confidence in the metals which were used as the media of exchange, it is easily seen that few people would deem it necessary to resort to barter in order to effect an exchange of goods. But the point to be noted is, that no such step from barter to money could have been effected without an increase in the confidence and trust which men were generally acquiring in one another. The fact that with the growing complexity and increase of business there were one or two commodities which were universally recognized as having general purchasing power made it easy to take another step upward in the economy of trade. This was done by again extending the scope of operations dependent upon confidence.

4. *Bargains which involved future delivery.*—The direction of the next extension lay in bargaining for future delivery of goods or services. Under the older money economy, men exchanged goods for money and vice versa, and the chief risks incurred were those incident to the loss through theft or accident; for under a barter or a money economy the exchanges of goods or money were performed by both parties, who delivered their commodities at the same moment. With the introduction of this new element of future time into transactions, new risks were also introduced and these had to be provided for. This was done by simply substituting a promise to pay money in the future to the party who delivered his goods in the present. Upon this simple provision was founded our modern system of doing business. Thus it is that some nations passed from a money to a credit economy and confidence and trust became

not only helpful factors, but the very basis of the structure of industry. To quote one authority:

> Money economy gave liberty, credit gave opportunity. By credit the competitive system has developed so as to be able to replace the primitive group system, and even surpassed its accomplishments. Without credit, individuals could not extend their operations so as to supersede the collective system which subsisted as some form of natural or involuntary coöperation until the rise of credit in Europe.

Under an organization of credit economy undertakings are carried on by men who may acquire title to capital, not by delivering an equivalent at the time of acquisition, but by a method which divided the two parts of a transaction, the receipt and the delivery, by a considerable period of time. This is the distinguishing feature of the new system of exchange. This is the peculiar mark of the newer credit economy. Under this simple arrangement by which the borrower promises to pay a certain sum of money at some future date in return for goods delivered to him in the present, the field of industrial activity has been widened and extended in harmony with the forces of production which were demanding new outlets for its surplus. We said "harmony," but not perfect harmony.

5. *The relation of money to credit.*—The close and vital connection between the new system of exchange and the older money economy is not generally recognized. It will be noticed that not only is one-half of the transaction to be performed at some future date, but the contract calls for a delivery of money. Any system of exchange, therefore, that does not provide for the close and ready coöperation between the money needs of a country and the credit needs of the same, will often

find its whole industrial system thrown into disorder by this maladjustment. The best known illustration of the way credit coöperates and aids money is seen in the banking business.[1]

6. *Banking and credit.*—Because of the central position which the banks of a nation hold in the credit system as dealers in credit, the result of any disturbance affecting the public confidence is first observed in the banks' attempt to protect their cash reserves. This often necessitates the calling in of certain lines of credit, which means that some class or classes of business men must find the money to meet the banks' demands. They in turn are also compelled to call in some of their credit, and thus it is that the demand for money is scattered far and wide, while at the same time no one is offering credit. So panics begin and spread until every business firm which has used credit in its operations is affected. Many are ruined because they can not meet the demand upon them to pay money, and others are injured by being compelled under the immediate pressure to turn valuable goods into money at a great loss, while all enterprises are hurt indirectly by the general industrial depression.

The practical point to be observed here is that the relation which the cash reserves of the banks hold to their outstanding credits is a fairly good guide to the business man in judging whether or not it is advisable to extend or contract his commercial credit operations.

7. *Relation of credit to panics and depressions.*—A study of the great panics and depressions which have occurred at various periods during the last one hundred years discloses in each case a constantly growing disproportion between the reserves and the liabilities of the

[1] See volume on MONEY AND BANKING.

banks just before the business world has been plunged into a financial crisis. In every case the immediate cause of the panic was the inability of the two essential factors in the credit system to coöperate effectively at the critical moment. This defect lies partly in the faults of banking and currency systems, but more fundamental still is the fact that though our industrial system is founded on confidence, there are still many men in every community who are not yet fitted to participate, without restriction, in a system which depends for its existence upon the general belief that men are honest and will pay the debts which they contract. Trade exchanges should be more strictly guarded by holding men within their "credit limits." There is a general reluctance on the part of business men to put checks upon the freedom of trade, but in the present state of commercial development it is necessary that men be held fast to some credit-giving standard, which is high enough to enable only those who can reach it to get the benefits derived from the use of credit. Under our present credit system men are prone to take advantage of any looseness in the granting of credit and as a consequence there are frequently recurring periods of "over-trading." These inevitably end in a general failure to liquidate, and this, combined with an inelastic system of banking and currency, means bank failure, business failure and industrial depression. Mr. Henry D. MacLeod describes this state of affairs as follows:

> All commercial crises, therefore, originate in the over-creation of credit and this is innate in the modern system of credit. Suppose that at any time the commercial world started with a perfectly clean slate. When such multitudes of persons are trading on credit, it must inevitably happen that a considerable number will speculate unsuccessfully, and create an excess

of credit, which cannot be redeemed by fair means. All excess of credit may be considered as so much virus or poison in the body commercial. However, by various tricks and devices known to traders, they can keep themselves afloat many years after they are utterly insolvent, and thus the poison continually accumulates. Then perhaps a fever of speculation takes place, giving rise to the creation of vast masses of speculative paper, and then, the poison having accumulated to a sufficient extent, bursts forth in a tumor or abscess, called a commercial crisis.

8. *Different degrees of business confidence represented by different credit instruments.*—Confidence is such an essential element in all departments of social activity that it becomes necessary to specify which particular confidential relation is referred to. We speak of a man's "belief" when we have reference to the conviction upon which his religious trust is founded. If we mention a man's "credit" then we have reference to that trust or confidence which pertains to his business relations.

As business transactions grew more involved and embraced longer times and greater distances, it became necessary to qualify the idea of "credit" so that there might be a more correct judgment regarding the degree of confidence, or the opposite—the amount of risk—involved in these varying business relations.

The first difference that suggests itself is the difference due to the distances which separate men and other obstacles that prevent men from forming accurate knowledge of each other. This puts restrictions upon men's confidence. Few men have national reputations, none are universally trusted, and the great majority are not known and trusted outside the circle of a few personal friends. This limits the acceptability of credit in-

struments issued by individuals, institutions, and even governments. It is necessary in a discussion of credit to put some limits to the locality within which we wish to consider it. The nation is taken, therefore, when the extent of the acceptability of credit instruments is considered. Thus we can speak of credit of limited and credit of unlimited acceptability. The first of these is represented by the promissory note, and the bank check, while examples of the second are seen in the greenback and the banknote. The last two are popularly called money and are so readily and generally accepted that people often forget that they represent only the government's promise to pay money upon demand.[1]

A further consideration of the relation of credit to money would lead into a discussion of the subject of prices. Although this is a very important one to the business man, it cannot be developed here. A few words, however, may be suggestive. Men who give credit extending over long periods of time are interested in the return of an equivalent value when the debt falls due. The face value of the credit instrument is expressed in terms of money, say $1,000, but if at the date of maturity the value of money has changed, that is, if the $1,000 will not buy the same amount of goods at the latter date that it could at the date at which the note was given, then the creditor may be in a position

[1] *Scientific use.*— Money is that thing which everybody in a community desires in some degree and is willing to take in payment for goods parted with or for services rendered. This is money in the scientific sense. It is sometimes distinguished as standard or redemption money. In the United States, according to this definition, gold coin alone is money.

Popular use.— Money is popularly used as a synonym of cash or "ready money," being applied indiscriminately to all forms of currency, such as gold coin, bank notes, greenbacks, silver dollars, etc. This is the most common use of the word. In this sense money is made to include not only so-called "standard money," but also all kinds of credit money.— Joseph French Johnson, "Money and Currency," page 6.

to lose money by the transaction. Thus it is important that the giver of long-time credits should have some means of judging the tendency for money to increase or decrease in value. The use of credit as a medium of exchange tends to lessen the need for money and hence to lessen its value. The level of prices is higher than it would be if credit were not used. As before explained, a credit instrument is a promise to pay money and serves as a medium of exchange. Since the promises to pay money are cancelled through the agency of banks, without the use of money, it is evident that the demand or need for money must tend to decrease when the use of credit is increasing. In a country whose business is giving rise to a certain volume of exchange the demand for money itself varies in proportion to the use of credit. It is large if credit is little employed, and small if credit is much employed.[1]

9. *Time as a factor in credit.*—Another distinction that it has become necessary to make within the field of credit is the one due to the different lengths of time for which credit is granted. The close relation between the development of commerce and the credit system has been noted already. The severe commercial competition forced men into a close study of the better organization of the productive and the distributive systems in order to economize. This better organization enabled men not only to increase their capital, but enabled them to turn over their capital oftener. Man is compelled to-day to work on smaller margins of profit and he must, therefore, turn over his capital oftener. Consequently, the credit system was modified to suit the commercial conditions, and as a result there has been a curtailment of time in the granting of credits. The long-time credits, when

[1] Joseph French Johnson, "Money and Currency," page 24.

six and twelve months were regularly given to traders in the far West and South, would not be considered warrantable to-day. Those were days of long distances, and of little communication, except when the buyers visited the market in person. When these conditions changed it was no longer necessary to grant such long terms of credit. Therefore it became customary to speak of short-time and long-time credits. Examples of the first kind include a period of time running from a demand at sight to a thirty-day promissory note. The second class includes those long-time instruments which may run sixty days or longer.

10. *Various classes of credit.*—Still another classification of credits may be made. The basis for this classification rests on the particular economic activity in which credit is used. In the field of production into which capital is led by the means of credit we have what is known as capital or investment credit. In the field of exchange, where business men devote themselves solely to the business of buying and selling credits, we have the kind of credit with which people are most familiar. Credit in this relation is spoken of as banking credit. Another very active sphere where credit is used is in connection with the distribution of the products of manufacture. The form of credit which permits the change of goods from one merchant to another is commonly called mercantile or commercial credit. Although these divisions constitute the most thoroughly systematized spheres of credit operations, nevertheless there is still another point of view from which credit should be observed. This is within the field of consumption. Credit which permits the individual to obtain goods for his personal enjoyment is designated as "personal

credit." The problems which arise under this latter system belong especially to the retail trade.

The advantages of credit in these various branches of economic activity of production, exchange, distribution and consumption are well set forth by Professor Conrad of Halle University:

(1) Credit furnishes a more perfect and convenient means of payment in large sums and between distant places than the precious metals, saving time and labor. This is effected by means of notes, checks and bills of exchange. (2) Credit takes the place of corresponding amounts of gold and silver. This is a saving, as it enables us to employ the precious metals for other useful purposes. (3) Capital is employed more productively. He who possesses capital, but is for any reason unable to make use of it, transfers it to another for a compensation to the benefit of both, as well as that of the public economy. It is given, *cæteris paribus*, to him who is ready to pay the highest price for its use; that is, in general, to him who can employ it most productively. (4) The laborers, artisans, and traders, although unprovided with means of their own, may by the use of credit obtain capital to assist them in their labors, and that without sacrificing their independence. This point is to be particularly borne in mind as of special weight in judging the credit of unions. Credit is thus of importance in avoiding that separation of capital and labor which excites so much bad feeling and which forebodes danger to modern civilization. (5) Credit gathers together the small sums, which, by means of joint-stock companies and otherwise, are economically employed. Capital is concentrated, but its returns are disseminated among the people, politically a weighty point. (6) The possibility of employing every sum, however minute, urges people on to saving. (7) Credit binds together the interests of those having dealings with one another. Under a highly developed system of credit economy, it is the interest

of each to show himself worthy of trust; this can be of advantage in the moral education of a people. (8) It enables men to save for their old age, and make provision for their families in case of their death. Were there no such thing as credit, the best one could do would be to heap up, and then consume afterward, the capital gathered together.

To this excellent summary Professor Ely in his article on "German Coöperative Credit Unions" adds the following division:

(9) Capital, when obtained under favorable circumstances, yields a larger return than the interest. Were it otherwise, borrowing, except in case of special need and distress, would cease. The prudent and skillful laborer who can command credit is thus enabled to obtain, besides his wages, a surplus from the use of the capital. Credit, *well used*, is therefore economically as productive as a favorable climate or a high education of a people.

CHAPTER II

DIVISIONS OF CREDIT

11. *Varieties of business credit.*—It has been mentioned in the preceding pages that barter, money and credit simply represented three transactions, differing only in the degree of confidence that was manifested in the transaction. The last stage, or credit economy, shows a higher degree of confidence, since the very essence of our commercial system is found in the element of future time involved in our transactions. The longer the period of time that is interposed between the surrender of one's property and the payment for the same, the greater is the confidence displayed. There remains, however, a close connection between the present credit economy and the use of money; for every credit instrument given in exchange for goods must be liquidated by means of money. This imposes upon the commercial world the necessity of watching a double set of conditions: (1) The character of the collateral; and (2) the condition of the money market. That is, the credits must be based on goods or collateral that are marketable and whose future value in terms of money will be equivalent to the value of the credit extension at the time when it was given. Banking credit, mercantile credit, or personal credit are simply transactions which differ from each other because they hold different situations in the field of business relations. A bank, a large commercial house and a small retail store may be presented simultaneously with requests for credit, each applicant

offering the same kind of security, but as there would be different relations established in each case, there would be different names used. Thus while there are certain things which are common to the whole field of credit operations, there are certain lines of credit which become the particular study of each of the divisions represented above.

12. *Personal credit.*—In order of origin, personal credit holds first place. Borrowing arose for the purpose of satisfying some consumptive desire. But when the purpose of business changed from making a living to making a profit, banking and commercial credits were developed. Nevertheless, personal credit still persists, and although the oldest form, it is not the one which presents the most systematic organization. This is easily explained when we examine the elements of which it is composed. In general, it resembles commercial credit; the difference lies chiefly in the fact that commercial credit has other features, in which personal credit is lacking.

13. *Why a personal credit system is not well organized.*—On account of the difficulty of classifying personal credit-takers, there seem to be no well-established rules that are followed by those who extend credit to their customers. Each extension of credit is to an individual member of society. His relation to others in his capacity as an individual consumer is in no way regulated by public ratings of his riches, earning power, or character. Any agency that would attempt to gather such information from among the various classes of laborers, professional people and others would find the costs far too high to make it pay. Another difficulty which confronts the dealer, and which makes the establishment of any uniform policy almost impossible, is the

great difference in the economic status of those who wish to "buy goods on trust." First, there are individuals who can demand credit on their merits; secondly, there are others who by virtue of their very misery and poverty have a claim for credit. The reason for lack of system in this branch of credit is not, however, solely due to the variety of social and economic disparities among consumers. There is much to be charged against the dispenser of credit. Mr. James G. Cannon, vice-president of the Fourth National Bank of New York, in a paper entitled, *Individual Credits,* is of the opinion that one of the great evils connected with this kind of credit is "too great liberality." Neither genuine liberality nor philanthropy inspires the extension of such credit; it is rather the result of ignorance or inertia on the part of those whose duty it is to investigate the credit-standing of the applicant.

14. *Reasons for not making proper inquiries.*—The neglect of making proper inquiries may be due to the following factors. First, there is often an inordinate desire on the part of dealers to gain wealth. This leads them to extend credits without distinction. In order to out-rival their competitors, they throw discretion to the winds, and invite custom by offering liberal credit. The maxim of "a small business with good collections and fair profits" is forgotten, and the dealer is led by his cupidity upon the unsafe ground of a big credit business, which is not only less profitable financially, but is detrimental to his health and peace of mind, insofar as it means a constant struggle to support the thin margin that stands between him and commercial failure.

Second, many dealers lack the "business sense." They are wanting in those instincts which discriminate clearly between a proposition based on a trading relation and

one which is based on personal friendship. Such men are deterred from making inquiries of their patrons regarding their immediate or prospective ability to pay for fear of giving offense, although questions of this sort are perfectly legitimate from a business point of view; but the dealer allows himself to be controlled by feelings which are more suited to a "good fellow" socially, than to a successful business man.

Third, there exists a species of credit-seekers who prey upon the fears of the dealer, knowing that by presenting a bold front, by telling a plausible story, or by convincing manners, they will be given credit. Having once won a foothold, they further increase their debts by appealing to another fear common among dealers—that of losing a patron, or playing him into the hands of competitors. What storekeeper, having convinced himself that he was wrong in not refusing credit, has not been again driven to the same policy by the appearance of some clever woman, who full of righteous indignation, "the family honor having been impugned," offers explanations which make the dealer feel that the evidence of unpaid bills is as naught beside the mighty possibility standing before him. He will probably chide himself and offer humble apologies for letting an unfavorable balance arouse any doubts of her paying ability.

Fourth, besides these personal causes, there is another factor which, although it is perhaps outside of the control of the individual, may not be beyond the control of a united trade. Many dealers would make investigations in harmony with good business judgment if there were such facilities. We do not here include the "mammoth stores" whose managements can avail themselves of the various sources of credit information. The majority of dealers do not have access to these facilities,

however. The expenses connected with membership in a mercantile agency, or coöperative bureau, put such means beyond their reach. Then, too, the small merchant has not the necessary time to give his attention to the investigation of the credit standing of his customers, while to hire a man for this particular purpose is also far beyond his means. Yet, it is the opinion of eminent authorities, that it would be to the advantage of every merchant to give considerable time to the study of his credits.[1]

That the time is not far distant when the retail trade will have much better facilities for obtaining credit information is evident from such movements as the "Indianapolis Plan." During the year 1910 four cities had adopted this plan of coöperative retail credit reporting.

The plan as outlined by W. E. Bolch before the annual meeting of credit men shows the following significant features:

A private telephone exchange was installed. This enables the credit departments of each firm to get absolute privacy. The records of customers are kept in a central office. When cards come to the office they are carefully compiled. A special code of numbers known only to the central office is used to designate the members

[1] One of the large department stores sends the following form letter to persons whom an applicant for credit give as references:

Dear Sir:—
Will you kindly give us in confidence such information as you may possess concerning the financial responsibility, income and habit of pay, etc., of the person whose name is noted on the reverse side of this inquiry.
Thanking you in advance, we are
Yours very truly,

The following appears on the reverse side of the letter:
Name ....
Residence ....
Business ....
Address ....
....
REPLY:

of the association. Under these numbers the information concerning customers was filed. Thus when the file was completed the bureau had a record in concise form of the manner every account in every store had been taken care of. In order to keep the file "alive" a record book was introduced. In this is entered every account as soon as it is opened. This keeps the record complete to the very day. Special attention is given by members to reporting changes of address of customers. This makes the record valuable as a reliable directory.

Daily the *Commercial Record* is checked to this record; every suit and judgment, every lien and lease, chattel mortgage—in fact—everything tending to lessen a customer's credit responsibility is entered on his particular card. If danger is scented all members interested as having sold or still selling the customer are called on their special telephone and notified of the facts against his record. Likewise is each case reported if a customer's account shows that it is becoming dangerously slow. Two or more reports on one person sent to the Bureau is the signal for a general notification to all members of the Association.

Information of a more general nature, such as a record of the persons to whom credit had been denied either because of previous adverse ratings or because of no credit experience is sent out in bulletin form twice a week to the members.

The three elements which the Association lays stress upon when a customer's credit standing is being investigated are paying ability, stability of character and moral responsibility. "As practically 75 per cent of the retail credit risks," says Mr. Bolch, "are salaried persons, we ascertain as nearly as possible the income or salary of an applicant, his stability as shown by the length of

time he has been with his present employer, his domestic responsibility and his paying habits in the immediate locality of his home. The tax records show his legal responsibility, if any, and these all go to show as far as possible, the probable results, should credit be extended. When an applicant is engaged in business, a complete report of his ledger experience in the local wholesale trade is secured through close affiliation with a similar bureau maintained in the wholesale jobbing trade."

Besides keeping in touch with other trade bureaus the retail association maintains close affiliations with the city banks. All the banks are members of the bureau. This relation helps both the retailers and the banks, since "kiters" [1] either of checks or commercial credit are known to the Bureau and reported to the whole association. Three fundamental ideas underlie the working of this system.

(1) *Opinions* are never confused with *facts*. The bureau acts only as a clearing house for ledger figures which tell their own story.

(2) The source of information is *never* made known. The stores are known by a cipher. Without divulging the source of the information the bureau can report upon a customer's indebtedness to another store. The inquiring store gets only the total sum owing and the amount past due. The chief value of this information rests upon its being up to date. It represents *present* indebtedness of a credit customer.

(3) Coöperation between the members is stimulated by a feeling of ownership. The bureau belongs to the members and not to a voting agency owned and con-

[1] A check "kiter" is a person given to overdrawing his account habitually. "Kiting accounts" refers to the practice of establishing a line of credit in several stores by a person in excess of his ability to pay.

trolled by people from the outside. The association absolutely owns a live record of over 60,000 persons, comprising over 600,000 actual ledger transactions.

In summing up his valuable report the author says:

While the direct tangible good wrought by the working out of this plan has been far greater than we had dared to hope, the intangible salutary effect it has had has been worth far more than can be estimated in dollars and cents. It has been the means of clearing out forever parasites who have literally lived on the local retail merchants in maintaining their valued (?) position in society and at the same time, has given a correct and firmer credit standing to those to whom credit is due.

15. *Relation of personal credit to other credits.*— The extension of personal credits has a two-fold effect. It affects the commercial system as a whole, and it is also connected with the subject of prices. If the retail dealer cannot collect his debts, it means that the wholesaler or jobber or his banker must wait for their payments. Then, too, there are the producers or manufacturers or their bankers, who must suffer the restrictions which are put upon business activity by fraud or failure to meet engagements on time. For this lack of system and the strictness in regard to credit extension, the consumer pays the penalty in the increase of prices due to added risks which the commercial world must undergo as a result. How great these risks are, may be inferred from the statement made before the meeting of the Credit Men's Association in 1900. After giving the estimated average losses for the years 1890–1899, as being more than $178,800,000, Mr. D. B. Murphy says:

Appalling though these figures be, they do not include the untold millions that are absolutely lost each year, by merchants

engaged in retail trade, in every line of industry, in every town and cross-roads, from ocean to ocean, from the lakes to the Gulf, comprising every retail enterprise, from the gigantic department stores in our great cities to the humble rural dealers. These figures do not include the very considerable loss sustained by those engaged in the learned professions—notably by the physicians of the country—nor do they include the enormous losses of a personal and confidential nature.

16. ***Effect of "too ready credit" upon the consumer.*** —There is another penalty which the consumer must pay although not so directly, through the use of too "ready credit," which is nevertheless more harmful because of the insidious nature of the cause. Among those who seek credit are a large class of laborers and others who do not give due consideration to the demands of the future, but who are controlled entirely by their present desires. We see whole communities in numerous sections of the country, who lack definite plans for provision for old age or for periods of idleness or sickness. The "installment plan" is an example of a method by which credit may be made attractive to this class of people. In a recent report upon the conditions in "The Cotton Mills of South Carolina," the author says in illustration of this point:

> It is an exception to go into a home and not find photographs or highly-colored lithographs. In a great many communities I was told that the bane of the operatives as a class was the habit of buying things on the installment plan—from an organ to a last year's almanac—and when I asked him why anyone would buy a "last year's almanac," he replied that it would be bought on credit for the jokes that were in it. As a matter of fact, the first thing that the operatives have to contend with after they get into the mill village is the agent who wants to

sell furniture, pictures, a sewing machine, books, and a Bible, and now a phonograph on the installment plan.

Any means by which credit might be curtailed among such classes would tend to raise them morally and economically in the scale of social betterment. A method often followed by individual dealers is to restrict credit allowances to one week and refuse more until settlement is made. This is often most effective among those who "run" book accounts with the grocer and butcher. "Run" is a good word to use in this connection, for the account book is generally traveling back and forth between the home and the store incessantly. As a consequence, the weekly salary is outrun before the week's necessities have been provided for.

Perhaps no human weakness is more universally played upon than the readiness of the individual to bargain away his future independence through the instrument of credit. It is the instinct of every trader to insure his profit wherever he can. By getting men to buy on credit, he not only encourages them to purchase more extravagantly than on a strictly cash basis, but he holds a claim upon their future earning power, and to this extent controls their independence. The "truck system" is the best example of the abuse of this class of credit. The relationship of employer to employé often puts the latter in the power of the former through the "enjoyment of credit" at the "company stores."

17. *Other abuses of credit.*—There is, however, a more general abuse of personal credit in the appeals to the public made by mercantile houses. "Your credit is good at the New England" is a type of a very common mode of advertising which is meant to trap people into assuming heavy obligations, which, in view of their

means, they have no right to make. The risk to capital and profits when long credits are given is protected by chattel mortgage and high prices for the goods. But these disadvantages look small to the purchaser when "the day of judgment" lies so far in the future.

Another favorite device practiced even by large and representative firms, is only a variation of this method. Personal letters are sent to prospective customers whose patronage is solicited. The advantages of a running account are offered to them. The evil of this method lies not so much in the solicitation as in the kind of information which forms the basis for offering the opening of credit accounts. Lists of names are gathered from a sort of society's "Who's Who." The makers of these directories are not concerned with the financial responsibility of the people whose names they procure. Fashionable residence quarters are the chief consideration. Where luxury exists there should be at least a suspicion of extravagance, and extravagance means that the credit margin is likely to be narrow. The merchant should be more interested in the surplus which the customer can devote to the purchase of goods, than to the size of the bills for the rent of house and automobiles.

18. *Mercantile credit.*—The division of credit into personal, mercantile, banking, and capital credits is done on the basis of convenience rather than for the purpose of forming a basis for scientific analysis. While personal credit has to do with the transactions connected with the buying of the individual consumer, it is desirable to form another classification in order to include those larger transactions which involve a greater degree of responsibility. As a consequence, we should expect to find a more fully organized system for dealing with credit, and a sounder basis upon which it is granted.

Mercantile credit is confined to those trade interchanges embraced in the distribution of goods. So numerous and varied are these credit operations in this field of trade interchange, that it has become necessary to provide special institutions and agencies to aid in giving celerity and security to these credit operations. So there are banks and brokerage concerns that help in the transfers, and insurance agencies which aid in affording security to credit transactions.

The system of mercantile credits as it exists to-day is the result of a steady growth. The rapid extension of commerce put limitations to the old credit facilities. The whole system of distribution underwent a transformation. As the country developed toward the west and south, it became necessary to meet the newer condition of widely separated markets. The essential characteristics of the credit situation were the ever-growing risks and the involved adjustments necessary to bring present and prospective resources to meet present and prospective needs among communities whether local, national, or, if we go beyond the nation, international markets.

The distribution of our products, regarded as a commercial system, involves so many risks to capital and labor that this service has become a distinctively speculative business. These speculative risks have reacted upon the industrial system in such a way as to develop a new system under which credit may be extended. The credit system is, therefore, complementary to the commercial system. The new communities in the west and south needed capital to help them in developing their natural resources. It was credit that helped them over the experimental stage of their endeavors. It is not to be wondered at that the spirit of speculation often became rampant. Yet as communities became more

accustomed to settled conditions, they began to appreciate the necessity for greater commercial conservatism and the importance of handling more carefully the finely balanced mechanism of the credit system.

19. *Factors that have changed the credit system.*—The factors that have been uppermost in the modifications of credit systems are the railroads, the telegraph, and other means of communication. These have helped to cut down the risks due to bad roads, inadequate information as to investment and commercial conditions, and the necessity of keeping capital tied up for long periods of time. Under the old conditions, capital was tied up because it was necessary for the merchant to carry such large amounts of stock due to the difficulty of calculating the probable sales of a season. As an illustration of this as it exists in international trade, we need only cite the case of the Indian trade. In the days when a voyage around the Cape of Good Hope took a part of a year, and the time of arrival varied by months, India merchants had to keep large stocks on hand to meet the varying demand. At present, however, when ships make the trip by way of Suez Canal in a month, goods are ordered as they are needed, and the immense warehouses of India are practically useless for the purpose for which they were designed. It was necessary, too, for the merchant to make periodically long trips to the market in order to purchase his supplies. The better means of communication have reversed the situation because it is more economical for the selling concern to send a salesman to many localities than for the country merchants to travel in person to the trade centers. Selling by sample has superseded selling by inspection. It is the wholesaler who must now assume the risks of overstocking rather than the local merchant.

The character of the credit systems was modified in several important respects. The liberal "time limit" under the old commercial conditions compelled the merchant who accorded credit to require the promissory note at the time of sale so that he himself might not be lacking in capital funds while his goods were being disposed of under a long term credit contract. Quick and easy communication has occasioned the substitution of short time payments for the former "long time" commercial paper. Then besides the services of the railway, the mail, the telegraph, and telephone, is the fact that banking accommodations have been extended to nearly every village and hamlet in the nation. These combined factors have had the secondary effect of changing the method and extent of note settlements. The long time credits running from four to six months had to be paid for by the merchant in higher prices and higher rates of interest, but as the banks were ready to advance him liberal accommodations, he soon saw the advantage of borrowing money from the bank and paying for his goods at the most favorable discount rates. In the place, therefore, of the long time paper, two new features began to be used, "dating" and "book accounts."

20. *The custom of dating.*—The custom of dating seems to have grown out of a plan to grant extra credit by the wholesaler and jobber in order to induce the merchant to make purchases before the season opened. Competition, too, encouraged the practice of making time allowances in order to cover the period during which goods were in transit and while they were being prepared for display. By this method, the purchaser persuades the seller of the goods to date the bill a certain length of time ahead of the actual shipment, say, thirty or sixty days. Then if the purchaser is accustomed to another

definite length of time in which to pay, the time does not begin until the expiration of the thirty or sixty days. For instance, a cotton textile merchant has a bill of goods sold July 1, 1908, and charged for on the same date with a dating of sixty days; terms 2 per cent, ten days; and net thirty days. This will not be due until October 1, which means that the debtor can pay the bill at any time within three months from July 1, because the dating gives him until September 1, and the term of thirty days extends the time limit to October 1. Not until October 1 can the creditor demand payment. The merchant might take advantage of his credit at his bank and borrow money with which to liquidate the note at the end of ten days. He would then be gaining the advantage of the 2 per cent discount as well as the interest upon the note for sixty days.

Although the custom of dating bills seems to be firmly established, yet the wholesale world is beginning to favor its discontinuance. This is seen in one direction by the steady growth of cash wholesalers by whom the credit market is being undersold. If the latter practice should prove the more economical, it is only a question of time when the retailers must withdraw their support of the dating system. Some claim that it is already outgrown and is on the whole detrimental to the trade since it encourages men to use snap judgments in anticipating market conditions. As a consequence, dealers overstock, and large and frequent losses ensue.

21. *The book account.*—More recent than the custom of "dating" is the substitution of the book account for the familiar promissory note and the domestic bill of exchange. For many years these formed the greater part of the business paper handled by the banks. By the extension and better organization of the banking sys-

tem, the dealers in the country were enabled to save the extra costs connected with the long time paper. Merchants could now buy credit of their local banker and pay "cash" to the distant jobber or wholesaler.[1]

The long time credit instruments having disappeared generally, the chief record of the transaction was that left upon the books of the creditor. The bills of exchange had served not only as evidences of debts, but had also entered largely into commerce as mediums of exchange. They were among the best kinds of business paper. A merchant who had sold his goods and held a note against them could easily pass it to another business man for more goods, or he could readily discount it at a bank for the actual cash. The disappearance of the bill of exchange, however, did not do away with the necessity on the part of the wholesaler or jobber of often seeking to raise money on outstanding accounts. Not having the notes to discount, the only avenue open was to borrow directly upon the book accounts. This, of course, could be done only when the owner of the book accounts was well known to the banker, for while the promissory note gave double evidence of the transaction —that of the maker and that of the endorser—the book account had to stand on the word of the owner alone.

The experiment, however, having been made and found to be reasonably safe and profitable to both parties, a regular system has grown up which deals with this particular kind of credit. At first it was handled solely by the banks along with their loan departments, but the business increased to such an extent that some

[1] A cash sale is a sale which is to be immediately delivered and paid for at the same time (stock exchange rule), but among merchants payment is to be made within a certain number of days, usually ten.— Montgomery Rollins, "Money and Investment."

banks organized a separate department for dealing in book accounts.

Most banks found, however, that work of this kind was very highly specialized and therefore too expensive—taking into consideration the conservatism necessary in banking—for them to handle. Accordingly there grew up outside the bank certain brokerage institutions which made it their specialty to handle business paper. They became very expert in judging of business credits and as they gained rapidly in capital strength themselves, these brokerage concerns became valuable adjuncts to the banking system. Often where a bank is prohibited from assuming the risk of discounting the book account directly, it is able to loan money on the broker's security and experience, as well as on the knowledge that a ready market exists in which they can quickly realize on these securities if necessary.

22. *Two methods of assigning accounts.*—The terms under which this business is done vary. The accounts of a merchant may be assigned to a bank or a commission house in one of two ways. The assignee may allow the assignor of the acounts to withdraw a certain percentage of the value of the book credit, amounting to from 70 to 90 per cent. In addition he may ask a bonus and a heavy rate of interest.[1]

The terms which govern another class of assignments are not so onerous, the difference depending in a great measure upon the degree of confidence which the banker has in the assignor of the accounts. A common practice permits the assignor to act virtually in the capacity of an agent of the assignee. The banker accepts the ac-

[1] In the state of New York the usury laws compel such agreements to be carried on *sub rosa.* The methods by which some commission houses and banks evade the law are very questionable.

counts and then allows the original owner to collect them and to use the money. As soon as the account is collected new credits of equal value are turned over to the banker. By this means is maintained the margin between the total book value of the accounts and the agreed percentage allowed upon them by the banker. This method is considered favorable to the assignor becaus. he may in this way keep the fact of assignment from his customers. It is generally thought that a man's business prospects are not sound if he is willing to assume the heavy charges connected with this method of raising funds. But conditions may compel the banker to exercise his rights under the assignment, in which case the customer's accounts that have been conveyed to him would be collected by the bank.

In case the bank or commission concern is willing to take all the risk connected with a given line of accounts, the terms are proportionately exacting. Here the book credits are bought outright but only at a heavy discount including a "bonus" and a high interest charge. To be convinced that the handling of this kind of credit paper is profitable one needs only to observe the increasing numbers of commission firms which are discounting and loaning upon these book credits. Many of these concerns have the capital strength of large banks and their work partakes much of the nature of banking.

CHAPTER III

DIVISIONS OF CREDIT (*Continued*).

23. *Capital or investment credit.*—When goods have been turned out of the factories, mills and workshops, completely finished and ready for use they may be divided into two general classes—those which are to be consumed directly, their usefulness ending with one act of consumption, and those goods which are to be used in the production of more merchandise. The former are desired because they satisfy some personal want. Food and clothing are the commonest examples of these. The economist calls them "consumption goods." In the preceding pages we have taken this use or function as the basis for classifying the credit transactions connected with the exchange of these goods in their transference from the dealer to the consumer, and we have designated this transaction as "personal" or "consumptive" credit. The latter class is desired because these goods are expected to help in the production of more goods. People value them according to the profit they are expected to return. They are therefore called "capital goods."

Income from capital goods may arise from the use of them by the owner; for example, the blacksmith may own his own forge, anvil, and other tools and may perform all the work with his own hands. He assumes the personal risk in the business and he expects to receive his return in the shape of profits. On the other hand, the owner of the capital goods may take no active part in the business. His interest in the enterprise is limited

to the income in the form of dividends and interest payments. His share of the gain does not depend on the fortunes of the handler. Railroad stock, municipal and government bonds may be cited as good illustrations of this class of investments. Men who invest in these forms of capital goods are generally controlled by the desire to have a regular and assured income. Certainty and regularity, therefore, must be the guiding elements in considering the exchanges which take place in transferring the claims of ownership comprehended in this field of capital investment. So we have another basis for classifying the credit transactions of persons who deal in this grade of capital investments. The title given to this branch of credit is in accordance with the character of the investments which it aids in carrying out and is therefore called "capital" or "investment" credit. The credit instruments which arise as a result of these are designated investment securities, and the essential nature of the credit is suggested by the term "long-time investments."

24. *Elements of safety in capital credit.*—A full discussion of the nature, forms and methods of investment would take us into the broad field of financial operations, but it is pertinent here to mention the elements of safety to be studied in capital credit:

(1) If the business is safe and profitable, the security is safe.

(2) The permanency and activity of the market is essential in determining the character of the demand.

(3) Stability and progress in business conditions indicate the general trend which all investments are taking.

(4) Solidarity and fixedness of policy in a business lend the same attributes to its securities.

(5) A steady and reasonable rate of interest over a

series of years insures the fact that a business is on an "investment basis."

(6) The character of the competition discloses the value of its monopoly position as a holder of franchises, good will, patents and so on.

(7) It is desirable that the character of the management be known in order to arrive at a knowledge of policy, trustworthiness and so forth.

25. *Principal forms of capital credit.*—The usual forms of capital credit are the following:

1. Government bonds.
2. State bonds.
3. Municipal bonds.
4. Real estate bonds and mortgages covering real estate.
5. Railroad bonds and stock.
6. Municipal street car line bonds and stock.
7. Telegraph securities.
8. Telephone securities.
9. Gas and electric lighting.
10. Waterworks bonds.
11. Bank and trust company shares.
12. "Industrials."

The rapid growth of the last form of investment—"industrials"—calls for at least a passing remark. Within a comparatively short period this form of capital credit has assumed a leading place. The magnitude of the industrial capitalization may be appreciated from a recent tabulation showing that the amount of "industrial securities" was equal to 48 per cent of the capital listed on the New York Stock Exchange. This comparison showed that the industrials amounted to $4,002,000,000 as against the railroads of $5,300,000,000.

26. *Principal sources of capital funds.*—The sources from which funds are drawn to be employed in capital investments show the desire of the investor to have security for his capital. The commonest source is the funds of the retired business man. Another well-known avenue by which surplus funds reach the investment field of credit securities is found in the savings bank deposits, the accumulated profits of commercial banks, and the funds of life and fire insurance companies. There are also certain charitable or educational institutions which buy up well-known bonds as safe investments. Of the same nature are the funds of estates in the hands of executors. In the case of trustees the risks and profits of business are exchanged for the safer but smaller income from some form of capital credits.[1]

27. *Banking credit and its relation to commercial credit.*—The close relation of banking credit to commercial credit is indicated by the frequent association of the two before the subject of banking credit could be treated specifically. Not all banks are connected with commercial credits. Those which do deal in them are called commercial banks. Their organization is based on the principle of accepting deposits subject to check so as to facilitate an exchange of commodities, and in this way to be of benefit to merchants and business men in general. It is commercial credit that originates and gives life to the vast amount of credit instruments which form the bulk of the banking business. That the bank's relations to the community can be defined in terms of credit is illustrated by the fact that when a bank receives a deposit, the community expresses its degree of confidence in the bank, and when the community takes a loan from the bank, the latter shows its faith in the com-

[1] See "Credit and its Uses," by William A. Prendergast, page 52.

munity. This mutual expression of confidence extends the activity of the bank in one direction, while it sets limits to it in another. The confidence of the depositor rests largely in the belief that the "bank is safe," by which is meant that the creditor can obtain his money upon demand. So long as this faith in the bank's ability to pay on demand is unquestioned, which is generally true in normal business times, the depositors will not all call for their money at the same time. Knowing this and through long experience having found out what proportion of the deposits must be kept for meeting the immediate demands, the banker is able to use part of the deposits for granting credit to business men who have no money to deposit but who have property in the form of notes, bills of exchange, warehouse receipts and so on, which they are willing to deposit with the banks or sell to them at a discount in return for the right of using the bank's credit. In this way the banking credit is exchanged for commercial credit and in two ways is credit extended. First, the bank by its position as an accumulator of deposits is enabled to create four times the amount of credit transactions that could have been created in the hands of individual depositors. Second, by the "swapping of well-known credit for less known credit," as the discount of commercial paper is so aptly defined, a credit instrument of greater acceptability has been added to the community by means of which exchanges are the more readily increased.

28. *Limitation of bank credit.*—On the other hand, the scope of a bank's credit operations is limited and by means of the very force which gives it its great credit strength. Every deposit is also a liability which the bank must meet at once if demanded. The limit of a banker's power to discount commercial paper is set by

the probable call for money by his depositors for withdrawal from the bank. The amount kept on hand to meet such demands is called the cash reserve. "This reserve is *the bank,* in the original meaning of the term—the heap, or pile, from which daily payments are made and upon which all the credit operations rest." [1]

29. *The credit latitude of a bank and a mercantile house.*—In order, therefore, to meet any sudden demand upon the reserve, it is necessary that the bank's investment in outside credits be of such a nature as to be realized upon with certainty and despatch. It must be satisfied, therefore, with a comparatively low rate of income from its investments.

Guided by the leading idea of maintaining its own credit in the discharge of the obligations to its depositors, the field of credit operations open to a bank is dependent upon the degree of convertibility among credit instruments. A certain kind of credit security, therefore, may be excluded altogether. Under our national banking law, commercial banks cannot lend money on the security of real estate. On the other hand, the securities which a bank accepts may be so readily marketable that it is not necessary to connect them with its credit department at all. These "call loans" are handled in a loan department where the momentarily fluctuating market conditions govern the collateral value rather than the person or persons making the note.

[1] The cash reserve may consist of any kind of currency which is commonly accepted, but preferably of legal-tender money, not the notes of other banks. Its amount must be proportionate to that of the deposits. The right proportion can be learned only by experience and only approximately. It varies in different countries, and at different places in the same country; and the local banker, as the person most thoroughly conversant with local conditions, has, as one of his most important duties, the ascertainment and preservation of that reserve which most nearly meets the needs of his community.—Horace White, "Money and Banking."

It is desirable that a bank should have a portion of its interest-bearing assets so invested that it can be quickly turned into cash to meet a sudden emergency. This is especially needful in the case of a bank which holds large sums deposited by other banks, since a financial disturbance occurring in a distant quarter may bring sudden demands for cash from the depositing banks. Stock exchange securities are held by banks, partly because they can be sold at short notice to meet such emergencies, partly because opportunities occur to bankers for acquiring them at low prices, and sometimes because they have been compelled to take the securities for debts, which would otherwise have been lost.[1]

Still another class of credit instruments are excluded from the credit department on account of their nature. Such are checks and other cash items as drafts on private banks not members of the clearing house, and small advances payable on demand.

30. *"Business paper" and "loans and discounts."*—Therefore, by a process of elimination we arrive at the particular branch of credit known as banking credit. The change of name which certain credits undergo because of the different point of view involved, often causes confusion and leads to complete loss of connection between the commercial and the banking world. In the commercial world many credit instruments, running from two to four months, are executed by men engaged in active business. In this relation they are spoken of collectively as "business paper" and consist of promissory notes, drafts and bills of exchange. From the point of view of the bank these promissory notes and so forth become "loans and discounts." Then, too, the bank finds it convenient and necessary to make other classifications of this "paper." Two of these are

[1] Horace White, "Money and Banking," p. 91.

fundamentally very important to the credit man from the point of view of security. Promissory notes are divided into single-name paper and double-name paper. A promissory note which is executed by one person and offered for discount without other security is called single-name paper. A similar note drawn by X to the order of Z, endorsed by the latter and presented for discount, gives the note a double security, both men being liable. This is called double-name paper. A second criterion of security is sought in the method of its origin. Either single-name or double-name paper may have its origin in a sale of goods on time and be presented to the bank for discount, but if it does not owe its existence to an actual business transaction it is not considered as sound security to lend upon. This kind of a note is called accommodation paper. In the case of a fictitious or intended transaction, the security is considered to be simply "personal." The following estimation of Mr. Henry Thornton illustrates the difference between real and fictitious paper:

> Real notes (it is sometimes said) represent actual property. There are actual goods in existence which are the counterpart to every real note. Notes which are not drawn in consequence of a sale of goods are a species of false wealth by which a nation is deceived. These supply only an imaginary capital, the others indicate one that is real.
>
> In answer to this statement it may be observed, first, that the notes given in consequence of a real sale of goods cannot be considered as on that account certainly representing any actual property. Suppose that A sells £100 worth of goods to B at six months' credit, and takes a bill at six months for it; and that B, within a month after, sells the same goods, at a like credit to C, taking a like bill; and again, that C, after another month, sells them to D, taking a like bill, and so on.

There may then at the end of six months be six bills, of £100 each, existing at the same time; and every one of these may possibly have been discounted. Of all these bills, then only one represents any actual property.

In order to justify the supposition that a real bill (as it is called) represents actual property, there ought to be some power in the billholder to prevent the property which the bill represents from being turned to other purposes than that of paying the bill in question. No such power exists; neither the man who holds the real bill nor the man who discounts it has any property in the specific goods for which it was given; he as much trusts to the general ability to pay of the giver of the bill, as the holder of any fictitious bill does. The fictitious bill may, in many cases, be a bill given by a person having a large and known capital, a part of which the fictitious bill may be said in that case to represent. The supposition that real bills represent property, and that fictitious bills do not, seems, therefore, to be one by which more than justice is done to one of these species of bills, and something less than justice to the other.

Mr. Horace White seems to agree with him when he says in his "Money and Banking": "Both are loans on personal security, since in neither case has the banker a lien on any particular goods."

CHAPTER IV

FUNCTIONS OF A CREDIT DEPARTMENT

31. *The forming of credit estimations.*—Some knowledge of the nature of credit opens the way to a clear understanding of a credit department. From the point of view of trade interchanges, two elements need to be emphasized regarding the nature of credit. (1) Every credit transaction involves the future and (2) it involves a contract. Hence, credit making is an estimate of the ability and intention of business men to carry out their business contracts, and of their ability to judge future commercial conditions. The functions of a credit department, then, may be said to be the forming of credit estimations. If every customer paid cash on the receipt of his goods, there would be little need of a credit man; but since customers buy on credit, it is necessary that the man who sells on credit shall study the conditions on which the customer's future profits depend. Every seller of credit thus becomes a risk taker in the enterprises of every credit taker and to this extent is a partner in the business.

The basis upon which the credit man forms his opinion is the information which is collected. It therefore becomes necessary to know what information is most essential to the particular business under consideration. Many factors must be taken into account before a decision can be made. Consequently no general statement that will fit all lines of business activity can be appealed to. Before seeking information, the credit man

should consider the location of his own business house, the kind of wares it handles, the general character of its trade, and the form of credit it usually extends. Having once mastered the relations growing out of the activities which these factors produce in meeting the commercial world at various points, much information that is irrelevant to his work may be eliminated. In general, after all due allowances have been made, two factors may be said to form the basis of the essential information needed to judge of the advisability of extending credit. These are character and tangible assets. By the latter is meant "property which can be taken under an execution and whether personally acquired or inherited, qualified by income and net wealth."

32. *Credit extension in the wholesale trade.*—We have already pointed out important distinctions that arise in applying credit to the various fields of industrial and commercial activities. It will now be necessary to point out certain differences which arise within the more restricted field of commercial activity. The most fully developed branch of this field from the point of view of commercial credit is that which embraces the relations of the wholesalers or jobbers to their customers. A very important matter in connection with wholesale credit is the volume of a customer's sales and the amount of his expenses. The amount of sales throws light upon the frequency of the turnover of his capital, which in turn indicates the ability of the merchant as well as the condition of the market.

One of the largest wholesale houses in Chicago follows a plan which allows a customer with a business capital of $10,000 a certain line of credit to start with. If he proves himself prompt in meeting his obligations and confines his purchases largely to this one company,

the amount of his credit is often increased, but the principal basis for increasing a line of credit lies in the amount of business done. If the customer does a business of three times his capital he is entitled to more credit than one who is turning over his capital only once or twice annually. In this particular line of trade, statistics show that a merchant must turn his stock at least twice a year or he is not making a profit.

But after all, if the credit man keeps his eye solely upon the business-getting qualities of a customer, he has observed only one side of his ability. Much depends upon the cutting of expenses, for this shows the man's ability as a manager. The relation between the expenses of a house and the amount of sales forms one of the best foundations for granting it credit.

33. *Granting credit by a manufacturing concern.*— Another branch of business which comes within the scope of trade interchange is the manufacturing concern whose product must be put upon the market, but which is generally done through the jobber. Yet there is a growing tendency on the part of the manufacturer to deal directly with the retailer and even with the large consumer. The basis upon which credit opinions are formed here is much the same as that in the wholesale trade; but the point of view of the manufacturer is different from that of the jobber. The latter works locally; the former has a broader horizon. The manufacturer is often in a better position to choose his customers from among the retail trade and can leave the poorer risks to be dealt with through the middleman. But on the other hand, the manufacturer must take other risks not imposed upon the jobber. This gives different directions to the general policies of the two firms. To demonstrate this, let us suppose that a manufacturer has

decided to put a new line of goods on the market. To do this he advertises broadly. He has no limitation as to the extent of that market, but when it comes to the filling of the incoming orders he must meet his customers in the spirit in which he created the demand for his product. Failure to supply any large commercial center, or failure to assume a liberal attitude in granting credit might not only lose him trade, but might injure his reputation as well. He must often place his goods with little hope of getting other returns than a good advertisement. The credit department of a jobbing house has few worries of this nature, for its policy is usually directed toward selling staple goods with an assured market. Yet the manufacturing concern must ever keep in mind that it is also a producer as well as a distributer. Goods left on hand at the end of the season mean a loss. Promptness, therefore, on the part of the credit department is a vital factor. Too great caution in forming a credit judgment may result in overstocking, or the delay may leave "a loophole through which a competitor creeps into a customer's favor."

34. *The giving of credit by a retail house.*—Differing from both the wholesale and the manufacturing concern in its relation to the demand for credit, there is the retail house. The retailer seldom looks up the past history of a customer. He bases his opinion on the character of the man and certain specific facts pertaining to his income, his bank account, his place of residence and if possible, the state of his past or present standing with other dealers with whom he has run accounts. The method of applying for credit in the retail trade differs in some respects from that of other lines of business. As the applicant comes in person, and often in the person of a woman, judgments must

be made quickly and often without a private interview regarding the credit strength of the applicant. The necessary facts for the formation of a judgment must often come indirectly from a general conversation. Inferences rather than settled opinions must be formed until the applicant's statement can be verified from outside sources. In case the applicant is a business man, the services of mercantile agencies can be used. Even in case he is not a merchant, it is possible that the agency can give information regarding a man's reliability. But at best, the retail man must form his opinion of the honesty and resources of his customer from a more incomplete set of facts than those upon which the wholesaler relies. Still some compensation exists in the retail trade. There is a much broader field here for the exercise of the credit man's ingenuity in seeking a safe basis on which to open an account. More risks can be safely taken as the time limit is more completely under his control as well as the extension of credit. For example, every account can have a limit put upon the amount of credit extended by monthly periods. Some firms change the limit of the amount several times during the month, in accordance with the condition of the account and the character of the purchases. These statements, however, only show that "eternal vigilance" is the price of success in the credit department of a retail store.

85. *Installment house credits.*—As manufacturing credit is only a phase of wholesale credit, so do we have different phases of retail credit. The installment method of the retail trade is differentiated from ordinary trade through the methods of its sales. The installment plan provides for (1) a part payment in "cash down" and (2) a mortgage of some kind for the re-

mainder of the invoice. When the method of selling on installments was first instituted, the customer looked upon the installment house as granting him a favor, but competition in this method of trading has removed any advantage which this fact may have given to this branch of the retail trade. An advantage of the plan, however, is the fact that the credit man knows better what class of customers he has to count upon. Men of limited income are the people with whom the installment house largely deals. They seldom have any real basis for credit. On the other hand, there is the disadvantage in the risks the house takes in being compelled to grant credit on the basis of the credit man's intuitions. He must gain his information on the spot and decide then and there. In an indirect manner, he must find out from his customer the reason for his buying on this plan and the position or trade or bank account from which the resources must come to pay the installments. A quick analysis of this information in order to circumvent the fraudulent buyer or to guard against the honest man who may be overreaching his resources, is very essential.

Having decided upon the character of the information which any particular business needs in forming a suitable basis for granting credit, each firm must settle upon the best means for gathering the desired information.

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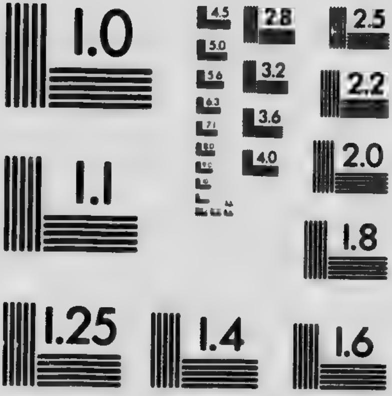

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CHAPTER V

SOURCES OF CREDIT INFORMATION

36. *Three essentials in credit giving.*—As education has its three R's, so the business of credit giving has its three C's—"character," "capacity," and "capital," and the greatest of these is character. If the credit man has decided that the character of the applicant is sound, the investigation of the other two features will be materially lightened, for the qualities that make for character must of necessity be reflected in all statements which are presented as evidence of ability and sufficient capital strength.

37. *Methods of investigation.*—In searching for information, the credit man has two ways of approach. These may be termed the direct and the indirect methods. By the direct method the credit man may interview the applicant personally and decide to what line of credit he is entitled. He may even ask for a direct statement from the applicant himself. In some ways this is an ideal method. It presupposes that the credit man is of a type similar to the *entrepreneur* himself. He must be able to judge of a risk; and the cumulative risks connected with a credit department are only secondary to the risks incident to the original business venture. If the credit man can be on the spot where the customer is to venture upon the credit of his firm, he can judge of the commercial conditions at first hand; he comes into personal contact with the customer on his "native heath." In this way—to use the language of the stage—he gets

the setting along with the principal character. Then if he is permitted, too, to inspect the internal sources of his information, such as the books of accounts, there ought to be little excuse on the part of the investigator for accepting a "bad risk."

If the credit man selects the other direct means of getting information, the applicant is requested to present a statement. Although the statement is not generally taken at its face value, it is often the starting point in establishing a basis for judging credit, and if this knowledge is regarded in the light of its true importance as a means to an end, this information coming as it does directly from those asking for a line of credit, is a valuable aid.

38. *Testing the reliability of a statement.*—In considering the reliability of a statement two important factors must be kept in mind: (1) "Chronic and intentional misrepresentation," and (2) ineffective methods and loose systems in business, which make a reliable statement impossible. These two factors are so common that the commercial public looks with skepticism upon statements in general. Many good firms refuse to submit them because of the feeling that the credit man regards them as mis-statements rather than statements. This method of acquiring information is used with greater frequency and success in the banking world than in commercial circles. The nature of banking necessitates frequent statements and accordingly more attention is given to method.

The following forms are among those in common use. The first two forms are sent by a bank to the customer for a statement of his affairs. The next three forms are used by commercial houses.

Form I.

Property statement sent by a bank to be filled out by an individual or partnership firm.

MESSRS. KNAUTH, NACHOD & KUHNE, BANKERS, 15 WILLIAM ST., NEW YORK CITY

For the purpose of procuring and establishing credit from time to time with the above Bankers, for claims and demands against the undersigned, the undersigned furnish the following as being a true and correct statement of his or their financial statement of his or their condition on the............... day of ....190 and agree that in case any change occurs that materially reduces his or their ability to pay all claims and demands against him or them, the undersigned will notify the said Bankers without delay.

In consideration of granting any credit by said Bankers, the undersigned agree that in case of failure or insolvency on the part of the undersigned, or in the event of it appearing at any time that any of the following representations are untrue, or in case of the occurrence of such change as aforesaid or of failure to notify of such change as above agreed, all or any of the claims or demands against the undersigned held by said Bankers, shall at the option thereof, immediately become due and payable.

Further, that the exercise of or omission to exercise such option on the part of the Bankers in any instance shall not waive or affect any other or subsequent right to exercise the same.

ASSETS.			LIABILITIES.		
Cash on hand.................			Bills Payable for Merchandise...		
Cash in............Bank......			Bills Payable to Own Banks....		
Bills Receivable, good, due from Customers..........			Bills Payable for Papers Sold...		
Bills Receivable, due from Partners..........			Open Accounts...............		
Accounts Receivable, good, due from Customers..........			Deposits of Money with us.....		
Accounts Receivable, due from Partners..........			Mortgages or Liens on Real Estate..........		
Merchandise (at actual present cash value)...........			All Other Notes..............		
Real Estate belonging to Firm..			Other Indebtedness and of what composed		
Machinery and Fixtures........			....		
Other Assets and of what composed			....		
....			....		
....			....		
....			Total Liabilities........		
....			NET WORTH...........		
Total...............			Total...............		

Contingent Liability. { Accommodation Endorsement........................
Endorsed Bills Receivable Outstanding............

Names in full of all General Partners ....
....

Names in full of Special Partners with amounts contributed by each, and until when, ...
....

Date of organization and expiration of Partnership..................

State last date of taking trial balance and if same proved.............

Memorandum ....

....

Please sign here..

By ....

V—23 Date signed..............................190....

Form II.

Property statement sent by bank to be filled out by a corporation.

MESSRS. KNAUTH, NACHOD & KUHNE, BANKERS, 15 WILLIAM ST., NEW YORK CITY

For the purpose of procuring and establishing credit from time to time with the above Bankers, for claims and demands against the undersigned, the undersigned furnish the following as being a true and correct statement of his or their financial statement of his or their condition on the.................day of ....190 and agree that in case any change occurs that materially reduces his or their ability to pay all claims and demands against him or them, the undersigned will notify the said Bankers without delay.

In consideration of granting any credit by said Bankers, the undersigned agree that in case of failure or insolvency on the part of the undersigned, or in the event of it appearing at any time that any of the following representations are untrue, or in case of the occurrence of such change as aforesaid or of failure to notify of such change as above agreed, all or any of the claims or demands against the undersigned held by said Bankers, shall at the option thereof, immediately become due and payable.

Further, that the exercise of or omission to exercise such option on the part of the Bankers in any instance shall not waive or affect any other or subsequent right to exercise the same.

ASSETS.			LIABILITIES.		
Cash in............Bank......			Bills Payable for Merchandise...		
Cash on hand.................			Bills Payable to Own Banks....		
Bills Receivable, Good..........			Bills Payable for Papers Sold...		
Accounts Receivable, Good......			Open Accounts................		
Bills or Accounts Receivable, due from officers.............			Bonded Debt (When due.......)		
Merchandise, finished (How Valued)			Interest on Bonded Debt.......		
Merchandise, unfinished (How Valued)			Mortgages or Liens on Real Estate		
Raw Material (How Valued)...			Chattel Mortgages............		
Real Estate.................			Deposits of Money with us.....		
Machinery and Fixtures........			All Other Notes..............		
Other Assets and of what composed			Other Indebtedness and of what composed		
....			....		
....			....		
....			....		
....			....		
			Total Liabilities...........		
			Capital		
....			Surplus, including undivided profits		
Total..................			Total.................		

Contingent Liability. { Accommodation Endorsement........ ....
{ Endorsed Bills Receivable Outstanding.................

Specify any of above assets or liabilities pledged as, or secured by, collateral, and state collateral.

....

....

CAPITAL.

Authorized..............Subscribed.................Paid in.............

Held by Company as Treasury Stock.......................................

How paid in: Cash $..................Other property $....................

Description of other property and how valued..................................

What portion of real estate, if any, has been acquired through bad debts.........

In whose name is title to real estate held.......................................

Incorporated in what State and under what General Law or Special Act..........

Date of charter..................Commercial business..................

Are Stockholders liable beyond amount of stock subscribed........................

If so, to what extent...

Amount of annual business.......Annual expenses......Annual dividends......

When was last dividend declared...................Rate...................

Insurance carried on merchandise...............Real Estate...............

Is Mortgage above state a first lien on all the assets.........................

Regular times of taking inventory...

Give basis of statement, whether actual inventory, by whom taken and, date, or if estimate, by whom made and date { ....

What amount, if any, of acc'ts and bills rec. not charged off, is past due, extended or renewed..

Amount charged off for bad debts last year....................................

Amount recovered during same period..

Amount charged off account of plant preceding year..........................

State last date of taking trial balance and if same proved....................

Regular times of balancing books...

Number of bank accounts, and where kept......................................

OFFICERS.

NAME IN FULL	ADDRESS
President	....
Vice-President	....
Secretary	....
Treasurer	....

DIRECTORS.

NAME IN FULL	ADDRESS
....	....
....	....
....	....
....	....

Please Sign Company's Name here...

By ....

Date signed..............................190....

PROPERTY STATEMENT BLANK

RECOMMENDED AND INDORSED BY THE NATIONAL ASSOCIATION OF CREDIT MEN

THE RECIPROCAL VALUE OF A SIGNED STATEMENT

Good credit in the markets of the world enables every merchant to add to his ability to do business. It gives him the use of enlarged capital, thus enabling him to carry a more complete stock, increase his sales, and magnify his profits.

Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets, and in harmony with conditions which create and maintain it. *A merchant's capital is the sum of his net available resources, plus his credit.* The giver of credit is a contributor of capital, and becomes, in a certain sense, a partner of the debtor, and, as such, has a perfect right to complete information of the debtor's condition at all times.

Credit is given a merchant because of the confidence reposed in him. Requesting a statement when credit is asked is not a reflection on one's character, honesty, or business ability, but is done to secure information to enable business to be conducted intelligently.

When a statement is made it should be absolutely correct. To make it so necessitates the taking of at least an annual inventory and the keeping of an accurate set of books. Statement giving, therefore, will tend to make a debtor a better buyer, because more familiar with his stock, more careful in giving credit, more conservative in incurring debt, and will result in a better knowledge of his business generally.

A merchant who desires to serve his own best interests should recognize that his most valuable possession, apart from his actual assets, is a sound, substantial and unquestioned reputation as a credit risk, and that, under the prevailing conditions and demands of business, the most effective, and eminently the best way to prove his basis for credit, is to be willing to submit a statement of his financial condition.

NOTE: The above estimate of the value of a statement to both giver and receiver is the embodiment of the thoughts and experiences of scores of the leading credit men of the United States who are members of the National Association of Credit Men and who thus desire publicity given to their views in order that there may be the largest benefits to both retailer and wholesaler.

Standard Form A.

To RICH, MANN & CO., New York

For the purpose of obtaining credit for goods to be sold me or us by you, or for any extension granted me or us on my or our account with you, the following is given you as a true statement of my or our assets and liabilities and general financial condition. I or we agree to and will notify you immediately in writing of any materially unfavorable change in my or our financial condition, and in the absence of such notice, or of a new and full written statement, this may be considered as a continuing statement, and substantially correct.

Firm name.................................Date...............190....

Town .... County .... State..........

ACTIVE BUSINESS ASSETS.	Dollars	Cts.
Value of merchandise on hand at cost..............		
Notes and accounts, cash value....................		
Cash in hand......................................		
Cash in bank......................................		
Fixtures, machinery, horses and wagons............		
Total Active Business Assets.................		

BUSINESS LIABILITIES.	Dollars	Cts.
Owe for mdse., open acct. of which $....is past due......		
Owe on notes for mdse........		
Owe bank....................		
Owe others for bor'd money...		
Owe taxes and rent..........		
Mtges. on fixtures, machinery, horses and wagons..........		

Total Business Liabilities..................		
Net Worth in Business......................		
OUTSIDE ASSETS.		
Total real estate, assessed valuation, $............		
Total encumbrances.................$............		
Equity.....		
Personal property...............................		
Other assets....................................		
Grand Total net worth in and out of Business.....		

Please state location and description of each parcel of real estate, and cash valuation of, and encumbrances on each, and in whose name each parcel is held..

....

....

....

....

Form A.

What portion of real estate described is homestead........................
Have you any other debts than herein mentioned?........................

Full given and surname of each partner	Age?	Married?	Possible liability of each member of firm as indorser, bondsman, etc.
....	......	....	....
....	......	....	....
....	......	....	....

What kind of business do you conduct?........................
Insurance on stock..............On fixtures, machinery, horses and wagons ....On real estate........................
Amount of sales last year....................Amount of expenses last year ....What proportion of your sales is on credit?..............
Date of last inventory......................Have you any judgments, judgment notes, chattel mortgages, or other liens against you, recorded or unrecorded? If so, describe........................
....
....

If you have pledged or transferred outstanding accounts or property remaining under your control, state amount thereof and amount received, or to be received, on account of such pledge or transfer....................
What books of account do you keep?........................
....

Buy principally from following firms:

Name	Address	What line of business?
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

The above statement, both printed and written, has been carefully read by the undersigned, and is a full and correct statement of my or our financial condition as of......................190....

Firm signature..

By whom signed........................a member of the firm.

All questions must be answered, insert ciphers in absence of any amount. When the words "Yes," "No" or "None" will correctly answer the questions, write them in their proper places.

A-3

Form IV.[1]

PROPERTY STATEMENT BLANK

Recommended and endorsed by the National Association of Credit Men

"Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets. The giver of credit is a contributor of capital and becomes, in a certain sense, a partner of the debtor and, as such, has a perfect right to complete information of the debtor's condition at all times."

To RICH, MANN & CO., New York: Date............................191

For the purpose of obtaining credit for goods to be sold me or us by you, or for any extension granted me or us on my or our account with you, the following is given you as a true statement of my or our assets and liabilities and general financial condition. I or we agree to and will notify you immediately in writing of any materially unfavorable change in my or our financial condition, and in the absence of such notice, or of a new and full written statement, this may be considered as a continuing statement and substantially correct.

BUSINESS ASSETS	Dols.	Cts.
Cash value of Merchandise on hand..........................	....	..
Store Furniture and Fixtures....	....	..
Cash in hand..............	....	..
Cash in bank..............	....	..
Accounts good and collectible...	....	..
Notes good and collectible......	....	..
Store, Building and Lots, $.. Mortgaged, $.. } Equity	....	..
Other personal property........	....	..
....	....	..
Total Business Assets.....	....	..

BUSINESS LIABILITIES	Dols.	Cts.
Owe for Merchandise, not due...	....	..
Owe for Merchandise, past due..	....	..
Owe Notes for Merchandise.......	....	..
Owe Banks..................	....	..
Owe Relatives and Friends.......	....	..
Owe Taxes..................	....	..
Owe Rent..................	....	..
Total Business Liabilities...	....	..
Net Worth in Business......	....	..
Total	....	..

If any of above liabilities are secured, state particulars in proper place below.

OUTSIDE ASSETS	Dols.	Cts.
Total Real Estate owned........	....	..
Less exempt portions..........	....	..
Total Real Estate not exempt...	....	..
Encumbrance on Real Estate not exempt	....	..
Net Equity in Real Estate not exempt	....	..
Other Property not exempt......	....	..
Total Outside Property.........	....	..
Debts not enumerated above....	....	..
Net Outside Assets............	....	..
Net Worth in Business.........	....	..
Total Net Worth in and out of Business	....	..

Full Given and Surname of Each Partner	Age	Married	Liability as Endorser or Bondsman
....	....	....	....
....	....	....	....

Nature of Business..................

Insurance on Merchandise...........$....

Insurance on Real Estate...........$....

Insurance on Furniture and Fixtures ....$....

Insurance on Other Property.......$....

Pay Rent on Store, per month...$....

Commenced Business..Lease Expires..

Bank with.........................

Date of last Inventory................

Ever burned out......................

Keep following Books of Account......

....

....

Included in Liabilities in Above Statement:

Mortgage on Merchandise...............$....

Mortgage on Furniture and Fixtures.....$....

Mortgage on Horses and Wagons.........$....

Mortgage on Other Personal Property..............................$....

What proportion of Sales is on Credit ....$....

Suits pending.............

Judgments.............$..

Judgment Notes.......$..

Mechanics' Liens......$..

Amount of Sales Last year.........$..

Merchandise consists of

Dry Goods......$..

Notions........$..

Clothing ......$..

Boots and Shoes .....$..

Hats and Caps .....$..

Groceries .....$..

Crockery .....$..

Hardware .... $..

...............$..

Total......$..

REMARKS—Give details and explanations of questions not fully answered above...

....

If you have pledged or transferred outstanding accounts or property remaining under your control, state amount thereof and amount received, or to be received, on account of such pledge or transfer..............................

....

The above statement, both printed and written, has been carefully read by the undersigned, and is a full and correct statement of my or our financial condition as of........................191....

Firm signature.................................

Town...................... State.......... By.............a member of the firm.

On the reverse side of this sheet is given a complete list of houses I or we deal with, and amount owing each one; also a description of all real estate owned.

Standard Form D.

[1]Sent by a commercial house to be filled out by an individual or partnership firm.

Form V.

PROPERTY STATEMENT BLANK[1]

Recommended and endorsed by the National Association of Credit Men

"Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets. The giver of credit is a contributor of capital, and becomes, in a certain sense, a partner of the debtor, and, as such, has a perfect right to complete information of the debtor's condition at all times."

To RICH, MANN & CO., New York:

For the purpose of obtaining credit now and hereafter for goods purchased, we herewith submit to you the following statement of our resources and liabilities, and will immediately notify you of any material change in our financial condition.

In consideration of your granting credit to the undersigned, we agree that in case of our failure or insolvency, or in case we shall make any assignment for the benefit of creditors, bill of sale, mortgage, or other transfer of our property, or shall have our stock or plant attached, receiver appointed, or should any judgment be entered against us, then all and every of the claims which you have against us shall at your option become immediately due and payable, even though the term of credit has not expired. All goods hereafter purchased from you shall be taken to be purchased subject to the foregoing conditions as a part of the terms of sale.

ACTIVE BUSINESS ASSETS.	Dollars	Cts.
Cash value of merchandise on hand		
If manufacturing, raw material, $....finished, $....unfinished, $........		
Notes and accounts, cash value....		
Cash in hand........		
Cash in bank........		
Bills or accounts receivable, due from officers........		
Patents and patterns........		
Fixtures and machinery........		
Total real estate, cash value, $....		
Total encumbrances on real estate, $........ Equity........		
Total Active Business Assets..		

BUSINESS LIABILITIES.	Dollars	Cts.
Owe for merchandise, open acct., of which $.... is past due....		
Owe for notes for merchandise ..		
Owe banks......		
Owe for bills for paper sold....		
Owe others for borrowed money..........		
Owe taxes and rent		
Mortgages on fixtures and machinery....		
Total Business Liabilities......		
Net worth in Business........		

Contingent Liability: Accommodation Indorsements .. Indorsed Bills Receivable and Outstanding ...

Authorized Capital.....

Subscribed...Paid in...

How paid in: Cash, $..

Other property........

Incorporated in what State and under what General Laws or Special Act?...........

....

Nature of business?....

Date of charter?......

Suits pending, and of what nature?........

....

Are any merchandise creditors secured in any way?.........

Amount of annual business ....

Annual expenses.......

Annual dividends....

When was last dividend declared?......

Rate........ Insurance carried on merchandise .....On fixtures and machinery ....

On real estate........

Regular time of taking inventory ....

Keep bank account with

....

....

Keep the following [illegible]ks of account....

If you have pledged or transferred outstanding accounts or property remaining under your control, state amount thereof and amount received, or to be received, on account of such pledge or transfer ....

....

REMARKS: ....

....

....

OFFICERS

	Name in Full	Address
President	....	....
Vice-Prest.	....	....
Secretary	....	....
Treasurer	....	....

DIRECTORS.

....

....

....

No extended commentary upon the contents of these forms is necessary at this time. The items contained here are discussed in the various volumes of this series of texts. The purpose of presenting these forms is to show what particular facts the credit departments of a bank and a mercantile house are interested in; and in what special form or arrangement business men have found it most convenient to have them presented. For these reasons two distinct types of forms are given corresponding to the two forms of business, the individual or partnership and the corporation. The number and character of the questions asked by the corporation statements show how much more important and intricate is the organization of capital in the corporate form than is the case with the individual or partnership form.

The types which are given as examples for commercial houses were selected from a series of six forms which are recommended by the "National Association of Credit Men." The items printed upon the forms are almost identical, but the styles are different (in shape and arrangement) the better to fit in certain filing cabinets and also to meet conditions in different classes of credits. Special attention is called to the paragraphs setting forth the reciprocal value of a signed statement. They show in part how the association of credit men is endeavoring to educate the commercial world up to the standard demanded by a credit economy.

In estimating the worth of a firm applying for credit one writer suggests the following formula:

> The credit man should apply liberally the principle of depreciation. Appreciating the generosity with which a merchant will estimate the value of his own resources, the credit man should deduct 10 per cent from accounts and notes receivable as a reserve against bad debts; about the same percentage for

machinery; at least 10 per cent on account of shopworn stock, and 50 per cent from anything scheduled which appears to be of indeterminable value. If, after this operation, the surplus of assets over liabilities appears to have been transformed into a deficit, the credit man should require security, or make such further investigation into the general reputation of the firm, or corporation, involved, as would enable him to accept the risk with a fair assurance of ultimate realization.

It is now understood that certain classes of assets on a balance sheet are more or less fictitious, that applications are not often made for credit based on a showing of that kind. In some classes of business a "construction" account is perfectly legitimate and represents actual value, but the value placed on a mine, or on real estate, etc., should always be compared with the amount of working capital. It would be generally safe to make it a rule to assume that where assets of this kind are a very important feature of a balance sheet, while the cash on hand amounts to $2.50, or thereabouts, there is a good deal of "discount on stock" lurking around somewhere, and not much real value.

39. *An example of statement analysis.*—In analyzing the statement the credit man forms his judgment by comparing the items with the whole business situation of the applicant. For example, the answer to the question "How much store rent do you pay?" forms the basis of several opinions. In selecting this item for consideration, the relation of rent to capital, the volume of business transacted, and the profits are of first importance. It is generally agreed that the amount of rent a man can pay does not depend upon capital or the amount of sales, but that the rent and the profits do have a close relation. A druggist, for instance, could pay out a larger percentage of his sales for rental than a dealer in some staple commodity because drugs yield a larger profit than the latter.

Some men prefer to compare the rent with the expenses of the business rather than with the income. If this point of view is taken, it is well to bear in mind that it is only an indirect way of arriving at the same result as by the other method. Rent in no way depends upon the expenses of a business. Two men engaged in the same business may pay the same amount of rent, and yet the expenses of one may be twice as high as those of the other. If the profits of the two are not considered, the only conclusion to be arrived at would be that one enjoyed advantages which the other did not; and instead of its being desirable that the one who has the greater expenses pay less rent, perhaps it would be more desirable that he change his location and pay a higher rent, if by so doing he could increase his business prospects. Because there is a close connection between the expenses of a business and the profits, some merchants have found it possible to make a rule for their particular line which says that the rent shall bear a certain ratio to the gross expense. One man may think that 4 per cent of the gross expenses is a conservative estimate for rent, while another may say that 1 per cent is sufficient in his particular business.

These differences of opinion only serve to show that these "rules" were arrived at by a process similar to all "rule of thumb" methods. By practical experience each man ascertains the amount of space necessary for successfully operating his business under the conditions prevalent in his line, and one of these "conditions" is the usual rental for a given amount of space. Having ascertained these facts, he arbitrarily fixes upon a ratio of rent to gross expense.

40. *The reporter and the traveling representative.*—Because of the expense and the fact that the credit men

connected with large establishments are too busy in the home office, the method of direct investigation by the credit man himself can seldom be carried out in practice. Therefore, indirect ways are devised. The representative method most nearly takes the place of the personal interview of the credit man. There are two kinds of representatives used in this method—the reporter representative and the traveling representative. The difference between the two classes of investigators is simply one of responsibility. The reporters are generally young men, credit apprentices, perhaps, whose duty it is to visit the various persons to whom the department has been referred as well as the houses from whom useful information may be obtained concerning the particular firm under investigation. This interview method is confined to the environs of the house conducting the inquiry. Much depends upon the keenness of the investigator, for, like the newspaper reporter, he must depend often for the truth of the facts upon the attitude of the man he is questioning. He must frame his questions so that evasion is difficult. The man to whom the questions are put must either answer directly or reveal by his manner the true information which he wishes to conceal. The experience of firms in the larger cities proves that this system gives the best returns of any, although the expense involved is heavy.

The method of employing traveling credit representatives is an outgrowth of the necessity for large firms to have direct information concerning classes of accounts which, because of their number and magnitude, become heavy as well as doubtful risks. This method is an expensive one, but the extent and complexity of modern wholesale business is calling for it more and more. The traveling credit man is the complement of the travel-

ing salesman. The responsibilities call for a man of experience—one who can critically analyze a customer's books and stock and, if necessary, can make use of the information collected from banks, local attorneys and agencies. Such a man becomes the best substitute for the credit manager himself, for he brings to the investigation a knowledge of both sides of the situation. Knowing the business thoroughly and being experienced in the ways of the credit department, he is acquainted with both the creditor's point of view and that of the customer in the particular case under consideration.

41. *The salesman as a gatherer of information.*—Perhaps the oldest way of getting information by personal representatives was through the salesman's reports. At first thought it would seem a good idea to unite the two offices of credit man and salesman with a single "expense account." But between these two offices there is ever a thick partition. The self-interest of the seller of goods rises like a wall of adamant, and as a consequence the demands of the credit department seldom penetrate its thickness.

Someone has said that of the four chief factors which enter a salesman's considerations, he himself comes first, the credit man fourth, and in between these two are the customer and the salesman's own firm. While it may not be safe to rely entirely on the salesman's judgment, the credit man can, however, secure a certain kind of information from this source which will prove valuable supplements to the reports received from other sources. The character of the information demanded of the salesman should be of a kind that he can easily supply from his own observations and experience. If the information does not require the salesman to ask questions that

may hinder a sale or embarrass the customer, much that is of value in making a study of credits can be obtained. The following form has been used:

Firm name	Address	
Date	Salesman	
	In General	
Business good?	Growing?	Competition?
	In Particular	
Store neat?	Well located?	Any advertising signs?
Stock kept in good order?	Well displayed?	Well stocked or low?
Clerks well trained or incompetent?		Kept busy?
Proprietor a good business man?		Social standing?
Drink?	Gamble?	Other firms bought from?

Each salesman is provided with these cards, and whenever he takes an order from a new customer one of the cards is filled out and enclosed with the order. If conditions seem to warrant it, the credit man may ask for a revised report on the same form, thus keeping the file up to date. A modification of the salesman's report is seen in connection with large packing houses or firms which conduct their selling departments through branch houses. The local managers are expected to obtain the information which is usually embodied in the salesman's report. It is often possible to substitute the local manager's report for that of the local banker's or attorney's report.

42. *Agency method.*—So extensive is the use of credit that it was found more economical to establish a new kind of business whose duty it is to devote its whole

time to the study of commercial credits. Its purpose was to impose upon each firm the necessity of gathering all the information needed to do business on credit. This is another illustration of the growth of a new employment because of the economy in the division of labor. The best known methods of gaining information by an agent are those of the large mercantile agencies. For several years this method was the chief source of credit information, but at present the field of credit is being broken up and special agencies are organizing to furnish information along certain lines of business. Then, too, commercial concerns are making use of the principle of coöperation in this branch of their business. The old method of turning a "dead beat" loose upon the commercial community is a survival of the old self-protection idea which at one time made every man furnish his own bodyguard. If he protected his own person from the criminal, he felt no necessity of warning his neighbor against the marauder nor any responsibility for his neighbor's safety.

Besides these agencies, the wholesale house has at its disposal two other agents. These are the local bankers or attorneys, whose services are secured by firms to keep them in touch with local conditions. Both will be treated of further on.

Mr. T. J. Zimmerman, in his book "Credits and Collections," says of the commercial agency:

> The point at which the commercial agency enters into credit operations is between the receipt of the order and the shipment of the goods. Credit rests upon the seller's confidence in the buyer's ability to pay; confidence results from favorable knowledge of a man's character, ability and circumstances. In order to decide whether his house wishes to extend credit to an applicant, to determine the amount of credit which this credit is to

be granted, the credit man must have certain general and specific information. Such information the commercial agency has made it its function to furnish.

43. *The commercial agency.*—The commercial agency originated as a result of the panic of 1837. New York, the commercial and financial center of the United States, suffered greatly from the wild-cat speculations of the West, and it was felt necessary to devise some means whereby the credit responsibility of the merchants might be assured. In response to the needs of the times came the first mercantile agency, which was established in New York in 1841. Its business was limited at first. Its reports were meager and its facilities for obtaining reliable information were incomplete. But in 1860, when Mr. Dun's name became associated with it, the mercantile agency had gained a recognized and assured position in the business world. Meantime, however, a rival institution had appeared. This was the firm of J. M. Bradstreet and Company, which had its beginning in 1849. Although many agencies with similar purposes have been organized, these two are the only ones that have survived. They both have so widespread a reputation that they keep competition out of this field by the sheer force of a name—a form of monopoly not always recognized. They have covered the country with branch offices and have extended their connections to all parts of the business world. They purpose to trace the experience of a person engaged in business, to discover the real character and general reputation which a man holds not only in business but in society, and to investigate the extent of his operations and the strength of his business position.

44. *How information is collected.*—This informa-

tion is collected by means of a system whose organization reaches every business man in the United States and Canada. Several independent district offices located in the large cities of the country form the central points for the accumulation of business news. In the large cities the work of collecting information is specialized. There are separate reporters for different kinds of trade. In the wholesale trade, for example, there are various individual lines of business and a man is assigned to look after each special line. But outside of the large centers the business territory is divided into districts and the reporter assigned to the particular district gathers information along all lines of trade. In order that the information may be gathered quickly and yet be reliable, these reporters are kept in their positions year after year. They become thoroughly acquainted with the detailed business facts and trade conditions in their line of trade or within their districts. They can judge of the importance of any new developments or rumors affecting the commercial standing of the firm or firms within their jurisdiction.

Besides, each independent office has sub-offices in the smaller cities, the number depending upon the size of the territory and the amount of business carried on. Some district offices have as many as eight sub-offices, others only two. The work of these is much like that of the larger cities. In a city of 40,000 people, for example, the sub-office sends reporters to the smaller towns and the territory round about. These men make regular trips and keep their managers in touch with the conditions along their routes.

But in addition to the news that can be gathered by reporters at intervals, there are often many developments and changes that need to be reported to the

agency immediately. To look after this kind of information the agencies employ local attorneys who reside in the various towns. These men report news of importance which needs the immediate attention of the district office. Although they do not give their whole time to this work, these representatives are helpful in supplementing the work of the regular reporters. One feature of the reports is their regularity. The city reporters make daily reports and the country representatives send in theirs at longer intervals of time.

45. *Content of the agency reports.*—The information appearing in these reports may be divided into three classes. First, there are the strictly news items. Second, there are the "impressions," that is, judgments of tendencies. Is a business going backwards? The reporter may have heard rumors of growing carelessness on the part of the merchant, whose stock is running down and whose manager is inattentive to the needs of the business; or it may be that a firm has increased its capital and is branching out in new lines. Third, there are the special reports growing out of a request on the part of a subscriber for special information concerning a customer, or from a desire on the part of the agency to gain information concerning a new firm. The agency prepares these reports not merely for the convenience of the subscriber, for they wish to publish the ratings of the new house in the next quarterly book. Whenever a district office wants a special report on some merchant outside its territory, it notifies the sub-office, and from here a reporter is sent out to gather the facts wanted for the report. Copies of these are made if it is an important one and sent to the several district offices. This is done so that time may be saved should the new firm seek to get credit outside the agency's district.

In order that all reports may be made to the district office in the shortest time and with the greatest secrecy, the agency has a special telegraph code which is used in all reports made by wire.

46. *Methods by which the information is distributed.*—How does the agency distribute this information which it has gathered? The names of merchants and manufacturers with business, capital, and credit ratings throughout the United States and Canada are issued to subscribers. By the payment of an extra fee, each customer of the agency is given two books of reference. These are merely the quarterly reports put into permanent form with corrections. In order to make use of the information received daily from reporters, the agency publishes daily sheets informing their subscribers of all failures, new incorporations, changes of ownership and so on. And, finally, the agency furnishes the special reports concerning the character of certain firms, which information is generally more difficult to procure. They include a record of the man's business and personal character, past and present; his wealth inside and outside of his business; his debts, his social connections, and his reputation. Then follows an analysis of the business itself—the capital, debts, outstanding accounts, amount of business done, its connections and creditors. In a concluding statement, the agency offers its judgment concerning the worth, credit limits, and best method of handling the situation.

Another feature of the works of these companies is the review of trade conditions and market information. This is published weekly and is accepted by the commercial world as the most authoritative opinion upon trade, financial and industrial conditions. Business

men find this of invaluable aid in measuring the credit conditions.

47. *Cost of the agency service.*—The cost of the most popular service to merchants and banking houses is $100 per annum, but $50 more must be paid for the two extra books which are published six months apart. If the merchant or banker wishes the special reports he must make the request on a blank prepared by the agency. He has the privilege of receiving one hundred special reports under his agency membership. Additional reports of this nature are charged for extra.

48. *Sources of the information.*—The sources of the agency's information are much the same as those of the individual firm when it seeks to determine the standing of another concern applying for credit. The agency sends its reporter directly to the firm under investigation. Questions are asked along the lines outlined above in the treatment of the special report. The reporters generally insist that the statements of the firm shall be signed by a legally responsible member of the firm. This makes the statement a better financial basis for credit extension because a false statement makes the party liable for obtaining goods under false pretenses. It is now that the reporter's abilities are called forth. He must form rapid judgments from what he hears and observes so as to sustain or condemn the statements given. Putting these facts and impressions together with such indirect information as can be acquired from other people, he now files the report with the agency. In the meantime, the district office has had other sources under investigation. A force of clerks is constantly at work examining the various government and court reports of incorporations and bankruptcies.

Then, too, the agency uses the valuable information gathered for its own weekly publications from the trade and financial sections of newspapers, government reports and so on.

49. *Kinds of reports.*—The reports may be divided into three classes: High, medium and unfavorable. These estimations are based upon two fundamental elements: capital rating and credit rating. The ratings are indicated by short abbreviations. The agencies generally use about seventeen or eighteeen signs for financial responsibility and about eight for credit standing, not counting the "blanks." A firm may be rated as being worth $3,000 to $5,000 and be given a second grade of credit. Perhaps a sign "21" is placed beside the financial rating. This means that the capital rating is assigned on a signed statement. Another sign may show that the firm refuses to make a statement. The credit rating "second grade" is explained by little figures which mean perhaps that the person concerned "pays when ready, no regard for terms," or "takes off discount in violation of terms," or that there is a "chattel mortgage on record."

The making of these ratings is the most difficult part of the agent's work. A few short abbreviations express the labor of days, and on these few signs perhaps rests the fate of some firm's business reputation. The reporter cannot form his judgment on the capital strength of a firm from a single statement of the concern, nor even upon the basis of the known cash investments or the amount of nominal or paid-up stock, but he must make an appraisal of the commercial or par value of the firm's assets. Not only is the individual estimate of the value of the business on the basis of investment concerned, but the relation of its assets to the market where

those assets are valued as well. This accounts for variations that appear from time to time in the agency's quarterly book. The invested capital of a firm or corporation may remain the same for many years and yet the capital rating may change often. This is only a practical illustration of that fundamental idea in economic theory that the value of a commodity or a business is not determined by the cost of production or the amount invested, but rather by the demand for goods, or if it be a business, by the market value of its assets. The credit rating naturally tends to change in the same direction as the capital rating, but this tendency may be and generally is checked by many other factors which influence the judgment of the reporter. Confidence in a man's ability to pay may be neutralized or added to by evidence which shows a man's willingness to pay. Character and social or commercial standing, as disclosed by a history of the firm for a number of years, determine the reporter's opinion as to the credit value of that firm's integrity and worth in terms of cash.

50. *Criticism of agency methods and services.*—The many criticisms coming from credit men show the increasing necessity of business concerns to watch their margins of profit more closely. All risk is a result of lack of knowledge. If our knowledge of future events were complete there would be no risk. Before the days of railroads, telegraphs, telephones, and daily newspapers risks were greater in all departments of human activity than they are to-day. The business world has struggled to cut down "time and distance" to a minimum in order that risk may be eliminated. The mercantile agency itself was called into being because of this demand. For many years its information was superior to the haphazard methods of individual firms, and even

such indefinite statements as the following illustration offered by Mr. E. F. Morgan in his article entitled "Some Defects of the Commercial Agency Report System," were better in those days before the "rush order régime" began than no "guess" at all.

Jones, Wm. H. JONESVILLE, Jones Co., Ga.

This party recently came here from Smithton, at which place he is said to have been in the dry goods business. It is not thought that he accumulated very much while in business at Smithton, though it is said that he owns a house and lot there, which is not known to be encumbered. He could not be seen at his place of business when correspondent called, so no statement could be obtained from him. He has a stock of goods estimated to be worth $2,000, but it is not known how much he is owing on same. Without a showing from Jones it would be difficult to estimate financial responsibility.

The credit man does not have the large profit margin to work on to-day, and he must eliminate all risk due to indefinite and inaccurate knowledge of the commercial situation. "Above all things give us accuracy" is the demand of the credit man. But *accuracy* under the present system of doing business, which measures efficiency in terms of speed, is the most difficult thing to attain. Especially is this true in the case of the agency which has been compared "to a huge machine, made up of numerous intricate parts, all human, therefore liable to occasional error."

In judging the agency one must first of all consider the purpose of its reports. Is it to furnish information so complete and judgments so final that the credit department needs no further proof before determining a customer's line of credit? Or is the work of the agency simply a supplement to other information pro-

cured by the credit man before arriving at conclusions? If the former is its purpose, so say the agencies, it would be more economical for credit departments to be transferred to the agency's offices. There would be no necessity for two departments to perform a single function. If the latter purpose be considered the more correct one, the question arises: How well is the agency supplying information which may be considered within its possibilities to supply? Are there any sources left untouched by them which would advance the credit system to a higher plane of increased confidence? We cannot do more than to name the various complaints which credit men make against the mercantile agencies. These are as follows:

1. The service is slow.
2. The reports of the agencies need to be checked by outside information.
3. The reports lack in detailed statements.
4. The books do not use enough significations in the rating of capital and credit. A pay rating designation is demanded.
5. The agencies have refused to institute a thorough system for the interchange of trade and ledger information.

It is perhaps in the last of these statements that the credit men have the best basis for a complaint. The agencies are undoubtedly well situated, both as regards equipment and reputation, to undertake this work successfully. So far they have refused, probably for business reasons. In the meantime, the necessity for wholesale manufacturing concerns to protect themselves against "poor risks" is compelling them to obtain this most necessary information independently of outside assistance. Their system demands of them that they

increase their confidence in each other and protect themselves by coöperating in furnishing such important information as a ledger account.

51. *Credit coöperative methods—special agencies.*—The failure of the general agencies to meet a widespread demand for some modification of the method employed and the character of the information furnished has led to attempts on the part of various lines of business to provide their own system for furnishing this information among themselves from their "ledger experiences." The purpose of this "interchange system," as it is set forth by Mr. W. H. Wheeler, vice-president of the Credit Clearing House, is to provide "an impartial medium between debtor and creditor and between creditors themselves, and to establish a system whereby those who are interested in any account may freely and unreservedly interchange the facts contained in their ledgers, without the necessity of direct reference each to the other, without divulging this information under their own name, and at all times receiving in exchange for items contributed by them the combined experiences of all the others interested in the account."

The blank report on page 285 is for interchange of information between firms. This blank, with an exact duplicate, which is filled in by the firm seeking new information, is sent to another firm. Thus some information is offered in return for information requested.

The basis of this new method rests upon the principle of coöperation and reciprocity. In not living up to the spirit of reciprocity some firms are bringing discredit upon the interchange system. For example, one firm will solicit information from another without giving an equivalent with the inquiry. Another instance where the spirit of coöperation is violated is seen when a firm

Form A7 11-08—100M.

OUR EXPERIENCE.

KEEP THIS FOR YOUR FILES.

Mess.............................. } New Britain, Conn..........
.... } We have........order, $........

from..........................P. O....................................

Kindly favor us with your experience and opinion.

This blank is adopted and recommended by the National Association of Credit Men, of which we are members.

Yours truly, GOOD FORM & COMPANY,
BOOTS AND SHOES.

How Long Sold?..
Terms: ....
Highest Recent Credit, $..
Owes, $..............Past Due, $...
Pays ....
Other Information: ....

Form A7 11-08—100M.

RETURN THIS TO US.

Mess.............................. } New Britain, Conn..........
.... } We have........order, $........

from..........................P. O....................................

Kindly favor us with your experience and opinion.

This blank is adopted and recommended by the National Association of Credit Men, of which we are members.

Yours truly, GOOD FORM & COMPANY,
BOOTS AND SHOES.

How Long Sold?..
Terms: ....
Highest Recent Credit, $..
Owes, $..............Past Due, $...
Pays ....
Other Information: ....

attempts to pass its credits solely on the ledger experience of fellow merchants, and without subscribing to a mercantile agency. This practice tends to increase the number of inquiries unduly. Such a firm will get a twenty-five dollar order from a concern rated at a million or more. Instead of looking up the rating of the firm they seek to establish the firm's credit strength by means of a trade investigation.

In order to facilitate and at the same time reduce abuses the following rules were proposed at the 1911 Convention of Credit Men.

1. The association blank shall always be used in making inquiries.

2. Each inquiry shall show the amount of the order; and when it is a first order, shall so state.

3. If the inquiry is on a customer, and is forwarded to one with whom credit interchange is rarely carried on, the inquirer shall accompany his communication with a statement of his own experience, and thus encourage the reciprocal exchange of views.

4. Inquiries shall not be made except on orders actually in hand, or on an open account; if investigation is being made with a view to selling an account, a letter should be written stating that fact.

5. All inquiries to be treated confidentially, and under no circumstances shall the subject of the inquiry be informed that he has been inquired about. This is fundamental.

6. All inquiries shall be answered if possible on the day of their receipt; and shall not be simply turned over to a bookkeeper or clerk, but shall pass through the hands of the credit man, in order that special information he may have, not appearing on the books, may be furnished.

A number of wholesale houses in some line of trade might agree to furnish to each other upon application the credit standing of any customer as presented by their ledger accounts. This method has been tried, but the amount of work and the expense connected with it is likely to limit its wide use.[1] It is known as "interchange by direct correspondence." A further development of this same idea is seen in the organization of "credit bureaus by trades."

One of the most advanced plans for reciprocal exchange is that of the manufacturing hatters who sell the jobbing trade. Their entire product is put on the market through about a dozen commission houses. These commission men coöperate in handling the trade. An "actuary" is hired by them to whom all orders and payments are submitted.

In Columbus, Ohio, the grocery men to the number of over five hundred have a reciprocal credit plan. It works about as follows: Each grocer gives the names of all customers, together with all credit information they may possess to the secretary of the grocers' association. This credit data pertains to the amount of the man's worldly goods, to the amount of credit allowed him, to a careful estimate of his moral strength, his business ability, his habits and his attitude toward paying his debts. The range of information is large and often embraces the amount of fire insurance carried by the customer, the social aspirations of the wife and the ability of the family to live within their income.

The secretary arranges all this data into forms for

[1] The complaint is now quite general that the number of inquiries is increasing so rapidly that the credit men must be careful about making unnecessary requests or the whole scheme must fail. Some firms report that the number of inquiries has become so large that an extra clerk is hired to give his whole time to handling them.

ready reference. Upon application from members, the secretary answers all questions concerning the credit standing of a customer. For instance, a charge customer having moved from one section of the city to another wishes to open a new account. The new grocer immediately gets in touch with the secretary and asks him how Mr. Blank met his last obligations. If it is found that he is in arrears, credit will be refused until his old debts are paid.

The bureau also collect data pertaining to selling conditions in the various districts, and this with a weekly list of customers who are becoming slow in their payments, keeps the members of the association well informed as to the possible failures and the "dead beats" of the community.

In order to make as few mistakes as possible in judging the customer's credit reliability, the association has appointed a committee whose duty it is to inquire into the condition of accounts of those delinquents who have been prompt in meeting obligations heretofore and have always stood high in the opinion of the credit men. Perhaps it is found that the man is worthy but is the victim of outside influences such as a strike or the prevalence of a contagious disease which prevents him from disposing of his goods. The committee is in a position to lend a helping hand here, and by so doing not only saves the man from failure but saves a customer to the trade. Occasionally the committee upon investigation reports unfavorably. The debtor is striving to "cover up" with the intention of defrauding his creditors. An early investigation of this kind enables the members of the association to withhold further shipment, to collect their accounts and close their relations with the debtor before disaster overtakes him.

The extent of the influence which such an association can wield is indicated by the number of names of customers listed in the bureau. The Columbus association is said to have complete reports on over three hundred thousand people doing business in their vicinity on whom can be given "complete ledger information instanter."

By the establishment of a central clearing house all the information and requests can be centered at one point. Information can thus be tabulated and distributed with a minimum of labor and expense. This seems to be the direction which the newest development of collections and distribution of credit information is taking at present. As each trade has its own specific needs, such as terms of sale, time of shipment and so on it maintains its own bureau in harmony with its own immediate interests. The limitations of this method may be seen by the fact that each trade is dependent upon a number of other trades in securing a reasonably complete record of orders and indebtedness of a dealer.

Recognition of the fact that information must be gathered from sources outside the particular trade has brought about a still further extension of the interchange system. An example of this development is seen in the Northwestern Jobbers' Credit Bureau, organized in 1905. This is supported by the four credit associations of Minneapolis, St. Paul, Fargo and Duluth, and at present has 160 members made up of jobbers residing in these cities. It employs an inside office force of twenty-one people and an outside force of thirty.

Its purpose is to serve the members with credit information about the trade and to act as a standing body of experts continually on watch to guard the members against losses due to fraud and failures.

Every day each member receives a complete list of

firms about whom inquiries are being made. Each member is expected to respond by giving the information which his ledger contains. The next day the members receive a statement showing the import of the evidence collected. The statement shows the condition of the debtor's indebtedness since the last statement was issued and the number of times and by whom he has been denied credit. No names are used. The information is issued in key form. However, a credit man familiar with the account and the conditions surrounding it can easily locate the larger accounts.

One unique activity of the Jobbers' Bureau is in connection with trusteeship and bankruptcies. Under its administration the trusteeships have paid on an average of 65 per cent, while bankruptcies have averaged about 40 per cent.

Another feature of the bureau is the provision by which an expert will be sent out to investigate a customer's business affairs for a member. This service costs the member requesting it $10 a day and expenses. If the report is favorable to the firm investigated no publicity is given to it, but if the report shows that conditions are not satisfactory a representative of this bureau takes charge immediately. In case of bankruptcy no preference is given the members but all creditors are treated alike. An average of about six months is required to liquidate a business. The manager of the bureau has a list of about 400 prospective buyers to whom he applies when trying to dispose of bankrupt stock, private sales being favored as they are more successful than public sales.

The magnitude of the business which goes through the bureau's hands in this connection is seen in the figures which represent the average values distributed for each

month, during the years 1910 and 1911. These averaged $34,000 per month for 1910 and $49,000 per month for 1911.[1]

The goal of many credit men is to supplement the trade bureaus with a "central clearing house." Other credit men think that the extra expense and the many difficulties in the way of providing a uniform handling of the information make this method impossible in practice. They would offer as a substitution an independent corporation to take charge of the collecting and distributing of the inter-trade information which pertained solely to the ledger experiences of the various firms. Being independent of all trade connection it could not be accused of favoring any particular trade.

52. *Advantages of interchange system.*—The following advantages are claimed for an interchange system: (1) It offers a means of studying a customer in the light of two ledger accounts—his own and his competitor's.

(2) Much valuable information not directly sought comes to a firm, often anticipating the need.

(3) It helps to put a check upon a dealer's tendency to overtrade. Some buyers make a practice of paying their bills promptly to the firms from which they wish "a reference." With a good record of this kind they purchase heavily of other firms. Under the interchange system, this increased indebtedness can be detected and the person's line of credit limited accordingly. The system offers the same protection against fraudulent overbuying—that is, buying a large stock preparatory to a bankruptcy.

(4) The collection department is helped by a knowl-

[1] Bulletin, National Association of Credit Men, July, 1911.

edge of the trader's entire obligations. Merchants are often overtaken by calamities not within their control, but if allowed time they may be able to right themselves. Some one creditor by forcing his claims might at this time ruin all chances for his recovery. If all the creditors work together they may not only save a hundred cents on the dollar, but a good customer for the future.

(5) A strong moral influence is exerted over the mind of the trader. He knows that his shortcomings as a business man will be published over the whole field from whence he expects to get credit. It gives a strong support to the maxim that honesty is the best policy. As a further aid, the customer's statements can be verified by comparing his own estimation of his liabilities with the bureau's estimate as compiled from the ledgers of the interested creditors.

53. *Banks as sources of information.*—Among the indirect methods of getting credit information are the local banks and local attorneys. These sources are open to all the different mediums for collecting information. The various firms consult them directly, and the general agencies find them valuable aids in supplementing the work of their reporters. These banks and these attorneys are not of equal usefulness to the credit man. The position of the two and their relations to the commercial community are very different. Often the local banker and the distant jobber may have interests very much alike in the business of the merchant. The merchant may be a borrower at the bank and may wish credit from a distant wholesale house. This possible and generally probable connection between the bank and the merchants of a town leads the wholesaler to look upon bank references as of little value. They divide the bank's attitude into three classes depending upon cir-

cumstances. If the bank holds the notes of a local merchant and he feels that a contraction of the merchant's credit might endanger his business, the banker is not likely to express an opinion unfavorable to the merchant. In case the merchant is a good customer of the bank, the latter would naturally recommend him for accommodation, while another bank in the same town would report the man as unworthy of any consideration when it came to giving him credit. This bank would probably not be handling the business of the merchant in question.

Perhaps it would be well to mention at this point that at present the weakest part of the credit system shows itself here. There is practically no credit interchange between the bankers themselves, while the recognition of the good that would come from an interchange of credit information between banker and merchant is also still among the "things hoped for."

54. *Attorney-at-law.*—The attorney-at-law, on the other hand, is in a position to render valuable services to the credit man. He is in a position both by training and profession to become acquainted with and to weigh the facts of business in his locality. Then, too, his relations to the community enable him to use this information without violating any trade confidences or without prejudice to his own business interests. Especially well qualified is he to report upon the results of litigations and other legal matters which are important in determining the credit standing of a merchant.

In cities which are large enough to afford an extended amount of business, law firms have found this class of commercial business so profitable that they have installed a special department to handle the gathering of credit information. The files of such firms are becoming rich

with accumulations of credit data. Some years ago credit men kept card indexed lists of attorneys for purposes of credit reporting, but this method has been superseded recently by "law lists" published by responsible houses. The lists are revised frequently, and lawyers whose names appear are under contract to act as agents for supplying credit information to firms which apply for it.

THE NATIONAL ASSOCIATION OF CREDIT MEN.

41 PARK ROW, NEW YORK.

On.......................... ....
....
....
....

Dear Sir:

Your name appears on our list as having represented us, or as being ready to look after our interests, should occasion arise requiring your services.

Inclosed, therefore, please find one dollar, for which kindly send us confidentially as complete a report as possible on THIS BLANK on...especially answering the various questions specified. DELAYED REPORTS ARE OF NO USE, THEREFORE BE PROMPT, PLEASE. Do NOT DISCLOSE OUR NAME AS INQUIRING. File our name as being interested in above business, and advise us at once of any change affecting his or their financial standing. Yours truly,

....

Name........................ Town..........................
County...................... State..........................

Full names of all Partners. { ....Nationality?......Age?....Married?......
..............Nationality?......Age?....Married?......
..............Nationality?......Age?....Married?...... }

FORM 19.—ATTORNEY'S REPORT BLANK.

How long in present business?..
What amount of capital invested?......................................
Ever failed?..........When?....................How did they settle?
....Ever been sued?..............
Ever asked extension?.................Is there any evidence of overdue indebtedness?..........If so, of what kind and amount?.................
..............Reputation good, fair, or bad for ability?.................
Honesty?..........Promptness?..............Is he doing a good business?............Location relative to business center?..................
..................................Is stock in good condition?............

Your estimate of amount of stock carried? ....$......
Is it insured?........$.............$......
Value of Real Estate above exemptions and incumbrances?...........$......
Value of other assets?.............$......
Your estimate total net worth above all debts, exemptions and incumbrances? ....$......

Of whom does he buy goods if you know?...............
....
....
....
....

REMARKS.

Any answers which cannot be made in above spaces kindly indicate by some mark and amplify here.

....
....
....
....

Attorney's Name...

Do not Write below Heavy Line.

FORM 19A. REVERSE SIDE OF FORM 19.

CHAPTER VI

CREDIT PROTECTION

55. *Efforts to secure protection.*—In a certain sense the general and special agencies, as well as the various means of gathering information, are only different ways of securing protection. These methods are evolved from the inside relations of the creditor and his customers, and as such form a distinct portion of the credit system. In order to supplement the agencies already existing and to impart strength to the whole structure of the credit system, certain other means have been devised which act as props from the outside.

On account of the nature of the credit one is not surprised to find the principle of insurance applied in this field. The credit indemnity companies supplement the commercial agencies in two respects: (1) They provide against uncalculable losses by applying the theory of averages to the field of credit extensions; (2) they aid the dispenser of credit by adding to the information of the customer that information which comes from a close investigation of the creditor's business also.

Every form of business is subjected to the losses incident to the uncertainty of the future. To remove this element of uncertainty from man's calculations, the institution of insurance was devised. So we have marine insurance, fire insurance, life insurance, burglary insurance, accident insurance, old age insurance, laundry insurance, and so on. As soon as any branch of business

or human activity involving risks becomes extended enough so that large numbers can be used in a combination of these risks, a new form of insurance arises to overcome the economic disadvantages of the particular uncertainty peculiar to this branch of activity.

The principle which underlies all forms of insurance is the same. The difference lies in the character of the data which enters into the averages. If we have accurate statistics of fires for a term of years and take the number of fires with a given number of houses during that period, we get an average. Nothing is more uncertain than the specific loss which will occur in any particular group; but, on the other hand, nothing is more certain than the average loss on all risks.

56. *Credit insurance.*—In the same way, if during the period of several years, the number of losses due to extension of credit is known, it is possible to classify the losses and arrive at a normal or average loss that a group of commercial houses or any particular house which has a large number of credit customers may sustain in a year's time. Accordingly we have companies which will insure a manufacturer or wholesaler against losses arising from selling goods on credit. The usual method is an investigation by the company of the wholesaler's books to determine what the average loss for the past five years amounts to. This loss must be borne by the firm itself. The company considers this loss as within the realms of certainty, and insurance has to do with uncertainty. Therefore it is only the losses in excess of this "initial" loss that can be insured. The wholesaler will be required to sell to retailers of a certain commercial rating and the premiums charged will depend in large measure upon the grade of rating allowed. Therefore the amount of credit that can be allowed to

any one purchaser is dependent upon the size of the policy and the rating of the debtor.

In illustration of the method, let us assume that a wholesale firm has gross sales of $100,000, and the normal loss figured over a period of five years is $1,000 or 1 per cent. The amount of insurance allowed the firm might be represented by a bond for $2,500, on which there could be an annual premium of $125 or 5 per cent. In case of a loss of $1,000 or under during the year, the wholesale firm would get nothing from the insurance company, yet all losses over the initial $1,000 up to $2,500 would be recoverable within certain restrictions. These restrictions are regulated by the credit standing and the capital of the debtors of the firm as determined by the ratings of the commercial agencies. Losses sustained from the failure of "rated" customers—those having a capital rating followed by a first or second credit rating—are covered by the full amount (100 per cent) of their debts or perhaps up to an agreed percentage of their capital; while losses on the "off-rated" —those with poor or no ratings—are never covered for more than a part of the loss sustained through them.

57. *Business houses classified by credit underwriters.* —Just as the underwriter determines the class to which each new applicant for fire insurance belongs, so the credit underwriting company investigates the condition of the commercial house to be insured. It must first determine the line of business that the applicant for credit insurance follows. There would, of course, be a difference in the character of the risks connected with a wholesale liquor house and those pertaining to a wholesale hardware firm. The class of customers with whom the applicant deals is the next consideration, and then the business policy of the applicant himself. For [illegible] [illegible]is-

tomers' standing the credit insurance companies rely in a large measure upon the various agencies which make it their business to collect information. As mentioned before, the mercantile agencies have amassed a vast amount of valuable commercial data and statistics of failures. By these means the "commercial mortality" can be classified according to different trades, localities and commercial considerations. Then, too, the mercantile agencies supply valuable data, all bearing on credit conditions regarding any specific business concern.

Although much can be learned concerning the insurance risk of a wholesale firm by investigating the customers of the house, still the chief basis for determining the normal loss, the per cent and fixed limit of indemnification, and the premium per year, is in the inside investigation of the wholesale house itself. It must disclose from its books the class of customers, the volume of business, the size of the accounts, the terms on which goods are sold, the run of its collections and the general credit policy.

58. *Arguments in favor of credit insurance.*—All forms of insurance must have some economic justification or they will not survive. The economist and the business man have the same tests, but they are expressed from two different points of view. The economist uses the test of utility. He argues that uncertainty results in a lower degree of productivity, or in a smaller surplus of utility, than would be the case were uncertainty lessened or removed. By minimizing this uncertainty it follows that insurance is productive of wealth. The business man reaches the same goal by a like test, only in a very practical way. He asks: "Does it pay?" By this he means, when applied to credit insurance, does it add income to his business and is the cost of adopting

it—the premium—necessary? Are the losses on the average large enough to make insurance necessary?

The indemnity companies claim that credit insurance does pay according to either test. It gives the business man control over his costs. He knows at once what costs are due to bad debts and he can enter his insurance premium upon his books without waiting for the end of the year. By adding this to his other fixed expenses he can ascertain the exact production and costs. Then, too, being secured from any excessive loss, he can compute his profits with certainty. No longer does he need to worry over his book credits. He has exchanged an uncertain expense for a certain expense, and his mind is free to watch the productive part of his business with greater keenness. As he now has some one with whom to divide responsibilities and losses he can increase the sales of his house to the maximum and at the same time keep the losses at a minimum. Although the terms of the bond offer him protection, yet it is only within certain restrictions, and it is for this reason that the credit man is forced to watch his customers' accounts in order to avail himself of better insurance rates, which depend upon a reduction of the average losses.

Much is claimed for credit insurance as a stimulator of trade and a preventive of panics. By giving business men confidence in their granting of credits the more active they become, for with increased confidence come increased opportunities for opening up larger and newer fields of business enterprise. At the same time, however, confidence in doing this is keeping men away from the source of all panics—loss of confidence. Each man feels that his outstanding accounts are secured to him by insurance.

59. *Weak points in credit insurance.*—Many busi-

ness men are not yet satisfied that the claims of the supporters of credit insurance have been realized. For instance, they question whether the normal loss of a large firm for a long term of years, if it has averaged a certain percentage of its gross sales, does not include the very risks that the firm wishes to insure. If it does, then any premium paid for "losses" above this amount is simply an added expense without any return. It is extremely probable, they say, even though in some one year the losses do not exceed this normal amount, that the average of the next five or ten years will be no higher.

The effect of insurance on the credit department is one to be condemned rather than commended, as it either usurps the credit man's place entirely, or by dividing the responsibility weakens his judgment as a dispenser of credit.

In regard to panics it is difficult to imagine an insurance company strong enough to stem the tide of distrust drawn on by a general feeling that the commercial world is overtrading, and a knowledge that losses due to bad debts approximate two billion dollars every ten years.

60. *National bankruptcy laws.*—Laws of bankruptcy are based upon the fundamental relation between creditor and debtor as determined by the law of contract. The theory upon which legal redress is sought by the creditor is based upon the presumption that the debtor has violated his contract.

Early laws pertaining to insolvency were framed upon the presumption that the bankrupt was guilty of fraudulent intention. These were creditors' laws. The development of our industrial system and the greater attention paid to a study of the true relations between creditor and debtor has brought about a great change in the object of bankruptcy laws and the scope of their

application. The tendency of modern legislation in this respect is toward the recognition of the fact that the creditor is a risk-taker in a business along with the debtor. Modern laws therefore do not concern themselves primarily with fraudulent practices, but with the equitable distribution of the assets of an estate among all risk-takers—the creditors principally—but the debtor, too, is included.

The changed attitude of the present day merchant as contrasted with former times when men were easily imprisoned for debt is seen in the report of the Committee on Bankruptcy presented at the 1911 meeting of the National Association of Manufacturers. It says: "The business world is inclined to believe that the average man is honest and that the greater proportion of those men who suffer failure in business are entitled to release from their obligations through the due process of law, and especially if the courts and the creditors are convinced that no fraud exists."

Only brief reference can be made here to this phase of the subject, although every credit man should know the provisions of this law, not only that he may the better know his legal rights and limitations, but that he may support the principles which are embodied in the law. The protection of the law against legislative attack is distinctly the obligation of the credit man. What the national bankruptcy law means to the credit men of the country may be seen by contrasting the condition before and after the legislation of July 1898, when the present bankruptcy law was passed. On several occasions before 1898, Congress enacted bankruptcy legislation, the chief acts being those of 1800, 1841 and 1867. All of these were short-lived and were brought about because of wide-spread commercial disaster just previous

to those dates. Relief was sought by legislation affecting the relationship of creditors and debtors. The absence of national bankruptcy laws put the administrator of debts under the control of the individual states. Therefore each state had its own system of bankruptcy and no two were alike. The only restriction put upon the state legislation was the federal constitutional provision prohibiting any law which impaired the obligation of contracts. The creditor who lived outside the jurisdiction of any state had two great disadvantages. One was that each state gave preference to the local creditors and the other was that many exemptions were allowed the bankrupt. The latter was not removed by the National Bankruptcy Act of 1898 nor its amendments of 1910, for the debtor whose estate is administered in bankruptcy is permitted to avail himself of such exemptions as are allowed in the state where he has had "his domicile for six months or the greater portion thereof immediately preceding the filing of the petition."

61. *Advantages of the present law.*—The following list of advantages which are claimed for the present Bankruptcy Act may show more fully by the contrast what the disadvantages were:

1. The prevention of preferences.
2. The excellent influence of the law in enforcing concert of action and mutual terms of settlement without recourse to legal proceedings.
3. The expeditious adjudication of bankrupts, as distinguished from the tedious and expensive processes common to state courts.
4. The election of the trustee by the creditors.
5. The examination of the bankrupt by creditors.
6. The adjustment of bankruptcies through compositions with the knowledge and under the direction of the court.

7. The prompt administration of estates and an avoidance of the usual delays in litigation.

8. The use of contempt proceedings to effect the recovery of property.

9. The institution of auxiliary proceedings to reach property lying in different states.

10. The sale of real estate clear of liens.

11. The settlement of the affairs of corporations in bankruptcy in the interests of creditors and stockholders.

12. The reduction in expenses incident to failed accounts, notably in the case of attorney's fees.

13. The acquirement of increased dividends from insolvent estates.

14. The punishment of fraudulent bankrupts.

15. The administration of insolvent estates wholly in charge of creditors interested.

62. *Meaning of recent amendments.*—Practically every trade organization in the country, wholesale, retail, board of trade, chamber of commerce, travellers' association and the like, was represented in the fight of June, 1910, to amend the Bankruptcy Law. One faction wished to repeal the law, the other wished to amend it. The amendments that were finally passed were suggested by defects in the law growing out of experience in the practice under it and the decisions of the courts bearing upon the administrative features that could not have been anticipated when the law was first made.

The amendments passed were as follows:

(1) Regulation of receivers' fees.

(2) Ancillary jurisdiction.

(3) Broadening of the law as it affects bankrupt corporations.

(4) Opportunity for composition before adjudication.

(5) Authority given a trustee with the consent of creditors to oppose a bankrupt's discharge.

(6) Making the obtaining of property on credit upon a false statement in writing given to a third person, a bar to discharge.

(7) Widening of the definition of preference.

(8) Compulsory notice to creditors before a bankruptcy proceeding can be dismissed, or bankrupt discharged.

(9) Giving to the trustee the rights of a levying creditor as against unrecorded chattel mortgages and other instruments of transfer.

The amendments bear strongest upon the subject of compensation of receivers and trustees. Previous to this time, men who were custodians in a way, received what was subject only to conditions surrounding the case and the disposition of the court. The first amendment therefore provides for an exact regulation of the fees of trustees and receivers.

Another amendment of importance allows corporations to become voluntary bankrupts. This was previously prohibited. The change also allows creditors to proceed against corporations and put through involuntary bankruptcy. This will, among other things, avoid long receiverships.

The amendment standing third in importance provides an opportunity for composition either before or immediately after the adjudication of bankruptcy by the court. This composition is only possible after the court itself, as well as the creditors, is fully satisfied that good faith has been exercised by all parties concerned, and that statements that have been made by the debtor to the court are honest and complete.

Another amendment also makes it possible for the

trustee in bankruptcy to oppose the final discharge of the bankrupt, if he is able to show proof that a false statement has been made, or that fraud has been practiced in any way. Before this amendment was passed it was generally conceded that the trustee often was in possession of evidence pertaining to the bankrupt which was not obtainable by the creditors.

The amendment in reference to "preference in bankruptcy" is also worthy of special mention. This refers more particularly to chattel mortgages, trust deeds, etc., which have been in existence but have not been filed. This amendment defines at what period of time this preference shall become operative, and then gives the creditor an opportunity to exercise the common law as well as the law of bankruptcy in dealing with the preferences.

63. *Future of the Bankruptcy Law.*—The future development of legislation pertaining to bankruptcy will be along lines of bringing the present law into harmony with administrative conditions. Many large trade organizations such as the National Association of Manufacturers and the National Association of Credit Men have adopted resolutions which show the opinions of those most interested and which direct the way for future legislation. In these resolutions it is declared that the working of the bankruptcy law as amended by Congress in 1910 is highly satisfactory and that they (the organization) pledge themselves to strive to keep the law in force and to assist in further amending the law as may be required and as it becomes necessary under changed commercial conditions.

The opposition to the law is chiefly due to the bad administration in carrying out its provisions rather than to any objection to the provisions themselves. Realizing

the justice of this objection, the credit men's associations of the country are giving special attention to the proper administration of the bankruptcy law in their own localities. For example, the associations of New York State are trying to coöperate with trade organizations with reference to forming a list of bona fide credit men who would be willing to act as receivers or trustees in bankruptcy when chosen by the judges of the court in their respective districts. Furthermore, the national association is striving by every means in its power to gain the coöperation of trade organizations throughout the country in watching the administration of the law as it now stands. The national office has established a special bureau, the Bankruptcy Law Department, which is prepared to answer all questions pertaining to the act. Through this bureau, members can investigate any matters of seeming irregularity, and learn authoritatively their rights under the law.

The greater uniformity in dealing with debtors brought about by the National Bankruptcy Act was a decided aid to the credit men of the nation. It removed in part, at least, many of the differences and burdens which the separate state legislations had imposed upon the credit departments. This lessening of the legal difficulties has given the credit men more opportunity to apply their energies to the solving of those economic problems which are inherent in the very nature of trade and which are so directly connected with the credit department of every business house.

64. *Credit men's associations.*—The first thing we must recognize in the beginning of a new movement is the disadvantage in carrying on any form of activity without adequate organization and coöperation. While coöperation has been more or less evident in the various

divisions of economic activity, such as is seen in coöperative production and distributive societies, and in the corporate management of large financial undertakings, yet in the field of exchange there has been very little progress in this direction. It is due perhaps to the fact that effective coöperation could not be introduced here until business men were willing to trust their competitors with trade knowledge, the secrecy of which had been considered the one absolutely essential requisite of every business. To trust a competitor with information which disclosed the standing of a customer might mean that you were surrendering to an enemy a knowledge of that customer's strong and weak points which had taken one years to acquire. But experience showed that the great selling houses had much in common. The creditors were natural allies. The opponents of the National Bankruptcy Law were the debtor communities and not the creditors, and it is now being more and more clearly seen that the safety of all creditors may be more firmly secured if each creditor will add his experience to that of the others, and in this way create a cumulative fund of credit information—a fund that may be drawn upon by all and used as a preventive against bad debts. The Bankrupty Law helps in the more equitable distribution after the failure, while coöperation among credit men helps to prevent the failures.

65. *National association.*—The organization which stands sponsor for this newest form of coöperation is the National Association of Credit Men. This association was organized in 1896 at Toledo, Ohio. It was an outgrowth of the discussions at the World's Mercantile Congress in June, 1893, which was held under the auspices of the Chicago Exposition.

There had been various associations prior to this, such

as credit companies or bureaus for the exchange of information, but the scope of operations was limited. Still these formed the basis for the national organization and are to-day branches of the national organization, and many of them yet carry on the functions of a credit clearing house, while the national organization of credit men confines itself to the broader field of formulating and directing the principles of credit in general. The objects of this association are summed up as follows:

1. The organization of individual credit men and of associations of credit men into one central body.

2. They purpose to render a more uniform and firm basis for granting credit in every branch of commercial enterprise.

3. They seek to reform the laws which are unfavorable to honest debtors and creditors.

4. They demand new laws beneficial to commerce.

5. They seek to improve the methods of gathering and disseminating data in relation to credits.

6. They wish to amend business customs to the benefit of all commercial interests.

7. They wish to provide "a fund for the protection of members against injustice and fraud."

These objects have been worked for with zeal. There has been considerable success in the spreading of information and the creation of a more friendly feeling between the various commercial interests. Through the efforts of the association the attacks against the National Bankruptcy Law were thwarted, while the efforts toward constructive legislation have been rewarded by many advanced national and state laws.

The growth of the Association has been phenomenal. Its membership in 1911 was over 14,400, and some of the local branches had over 1,000 members. The

annual meetings are marked by the number of discussions and papers pertaining to the education of business men in this department of commercial activity. As an educational center for credit men the Association performs its most useful function. The business literature is made up of valuable articles, pamphlets and addresses published by a department established for this purpose. These publications embrace many subjects outside of credits. We find among them the following: Accounting and bookkeeping, banks, bank credits, bankruptcy law, business abuses, business principles and customs, trade conditions, terms, datings and discounts, elements of credit, and fire insurance and its relation to credit.

The credit departments of all branches of commerce are trying to strengthen themselves in other directions by organization. The heavy risks attached to the extension of credit under a broad and extensive commerce have called into existence the institution of credit insurance. Although the benefits of this protection are not generally acknowledged by credit men, many of those against it base their objection upon the practical and incomplete workings of the institution rather than upon the principle of credit insurance.

In securing national bankruptcy legislation great advancement in the establishment of uniformity in the legal relations of both creditors and debtors has been made. In some respects this has proved to be the greatest gain which the commercial world has received from any quarter. It marks a distinct advancement in commercial development. Much credit, however, for this must go to the third factor as represented by the National Credit Men's Association. By persistent efforts the credit men have organized into a body whose influence is national in character and which serves as a rally-

ing point for all movements which make for commercial security and stability of credit.

66. *Importance of credit men's associations.*—Every department in a system or organization pertaining to business has two important relationships. One has to do with the outside or allied interests and the other with the various departments of the organization itself. The credit department is no exception. It is indirectly connected with the whole field of exchange from the outside, and it is closely associated with the selling departments, the collection, and accounting departments of its own business. It has already been shown how closely the credit departments of every line of business are being drawn together. The greatest achievement along the lines of cheapening the costs of production has been accomplished in the great industrial divisions of the making and the transporting of goods. The principles of combination and coöperation have given the modern industrial system a great advantage over all preceding systems. It now remains for the business world to apply these same principles to the field of exchange, and it appears that the points of nearest approach at present between the various business units lie in the credit departments of each individual concern. The losses due to "bad debts," and the great expense necessary to provide credit protection even in ordinary transactions puts upon the business concerns of the nation a burden and an expense similar to that borne by transportation when the mail coach was the chief means of sending goods across the frontiers. The credit men's associations are doing much both by precept and example to draw the commercial interests together in the field of exchange. They are "weaving a mesh of tough fibre, confidence, which permeates the entire crystallized structure of our

commercial body, giving strength and cohesion to withstand a strain."

67. ***Relation of the credit man to the firm.***—The man who organizes a business, raises the capital and takes the initial risks in any venture, is generally called the entrepreneur, or undertaker of the enterprise. One of his chief concerns in deciding upon the undertaking is the nature and extent of the demand for his product. Having once decided upon this in a general way and having established the business, it then devolves upon the various officers of the concern to carry out the details of the operations. The market still remains a determining element in operating the firm as it was the determining factor in establishing the business. If the enterprise succeeds, this will be due in great part to the departments which deal with the people who demand the goods. In this respect the sales department is very important. The salesman has been called the firm's "other image"—the selling force of a house being its sole outside representation. In the same way a good collection department is a source of strength in determining the success of a business. But the latter must meet the public in the guise of an adjuster rather than as a promoter, and as a consequence the success of a collection department often depends upon the amount of salvage that can be rescued rather than the "profit on account" to be accorded him. The salesman gets the trade, the collector must get the money. The department which stands between these two is the credit department. Its manager must supply the judgment necessary to keep the sales at a maximum and the losses at a minimum. This relation to the public is of very great importance.

In adopting a system for handling the data of a credit department these fundamental considerations must be

the guiding lines. In applying the principles in practice, the character of the business, its size and the many local conditions must determine the details. It may be said in general, however, that the system should take care of the routine of the department mechanically and leave the credit manager free for the weightier affairs of his position. The outlines of the system will connect the bookkeeping, the selling, the order and collection department with the credit department.

The system must care for data of two kinds: (1) Outside information, such as agency reports and so on, and (2) inside information as gathered from the correspondence, the ledgers and the records of the collection departments. The purpose of any system is to provide in the shortest time possible the necessary information and to ward against carelessness on the part of the credit man himself by warning him automatically of dangerous accounts or doubtful customers. How this is done in the case of a wholesale house may be suggestive, but it is not given for all kinds and conditions of businesses.

68. *An illustrative method—the mail, index cards, etc.*—Most credit men desire to begin their business day by learning the contents of the morning's mail. The method of opening and sorting the mail will depend upon its size. In a large department store, for instance, it may be necessary to bring only one class of mail before the credit man—the letters or orders—of new or doubtful customers. In other lines of business the credit man deems it his duty to open and classify every letter himself. There seems to be a happy medium between these two methods, which saves the credit man the burden of routine and at the same time keeps him in touch with the changes and movements of the business. From the

incoming mail he gets information regarding the state of collections without consulting the ledgers every day; he can see what customers are taking advantage of discounts, and which ones are not accepting the drafts drawn on them; he also sees what new orders are sent in without considering the many reports from the sales and other departments; while in general, the latest news affecting business conditions, complaints, etc., are gathered from the incoming mail.

One system which has proved successful provides for the opening of the mail by a clerk whose duty it is simply to write upon the letter the index number assigned to the writer. An index number is given to every customer of the house upon receipt of a first order. The numbers are consecutive and each state of the Union has a series of its own. Thus John Brown of Minneapolis, Minnesota, will be indexed as Minnesota 125; Fred Smith of St. Louis, Missouri, will be Missouri 420. The same number is used throughout the whole filing system. Correspondence, orders, sales, ledger accounts, mercantile and other reports are all classified according to it, and all the forms necessary, such as index and ledger cards and report folders are made out before the new name comes before the credit man. As soon as a number is assigned to a customer, his name is entered into a book and the index number is written opposite it. This serves as a book of reference in case the number is forgotten.

If the credit department is at the head of the whole office and can control the policy and methods of the accounting force, the credit man can carry out his system most effectively. When this is true the card ledger system seems to be the choice of the credit department. It does away with the friction which was common when books were called for under the old bound book ledger

system. In a large business these books must be in constant use in the accounting department. A card can be taken out without interfering with the work of the bookkeeping department, while at the same time the account is in a form to be easily handled. On this ledger card are the usual debit and credit entries with a column where the balance is indicated. It shows the condition of the customer's account at a glance. Other items show the terms on which the goods were sold to him and his rating. A third division of the card will prominently display in brief form the data abstracted from all the various sources which may have been used regarding the man's character, capacity and capital. The brief is revised or added to as new information comes in.

Some firms use differently colored cards so that at a glance some information of vital and constant importance may be conveyed to the credit man. For example, the regular ledger cards are white, but two other colors are used to indicate special data. A blue card containing the same data replaces the white card in the file when for any reason credit has been refused a customer. This card is never changed back to a white card again. Either a white or blue card may, however, be substituted by a red one. This is only done when a customer's account is placed in the hands of an attorney for collection. The color of the card is never changed again even though a new account be opened with the former delinquent. It stands as a perpetual warning to the credit department that at one time a fatal weakness was displayed by the firm.

That there may be as little delay as possible in filling new orders, many are turned over to the sales department upon the high rating given in the mercantile agency books, and the more detailed information is

looked up as soon as possible. Inasmuch as a large percentage of orders is taken by traveling salesmen several months before shipment is necessary, the credit department has ample time in which to make a thorough investigation before the date of shipment. To avoid the expense of filling orders that may be held up by the credit department, a memorandum of the estimated amount of all orders for future shipment is sent to the credit department just prior to the filling of such orders.

The close connection between the credit department and the other departments is best shown in the filling and shipping of an order and the collecting of payment. After the order has been passed by the credit man it goes to the invoice clerk, who makes four copies. Two copies are sent to the billing clerk, who holds them until the goods are ready for shipment. The third and fourth copies are sent directly to the warehouse. One is retained by the warehouse as a receipt and the other is sent back to the accounting department to serve as a source from which to post the ledger. When the goods are shipped, the billing clerk disposes of the two copies in his hands by sending one to the collection department and the other to the customer as a bill. The one sent to the collection department is divided into two parts by a perforated line. The information on the two parts is so arranged that one section can be filed away according to its numerical order number for future reference, while the other section, which contains information suited particularly to the collection department, is filed away in such manner that it will make its appearance "automatically" [1] on the date and day of the

[1] According to Mr. Montgomery Rollins a "tickler" is "a book in which all debts due to a banking institution (or anyone) are entered, together with dates of maturity, so that failure to present for payment at the proper time may not occur. It is a reminder."

dating. It is the "tickler"[1] of the collection department.

69. *Collection methods.*—The policy of a collection department must be in harmony with the credit department. This is often brought about by putting the credit man in charge of both. The methods pursued in making collections must be as varied as those pertaining to the granting of credits. Retail customers differ from customers of wholesale houses. The "business-like" methods practiced in the collection departments of wholesale houses would not be applicable, as a rule, in dealing with debtors in the retail trade. The latter must be carried on with a due understanding and consideration of human nature.

But there is one policy which is universally applicable to all collection departments. No matter whether it is in the retail or wholesale trade, customers should be trained to make prompt payments. Especially does this apply to the installment house where the collection department forms the backbone of the system.

There may be three or four steps in the collection of a debt. The usual procedure is first to send a statement on the day on which the debt falls due. If this does not meet with an acknowledgment, a letter is generally written asking for payment. This is a critical point in the procedure and all the tact in the possession of the department is needed. The object of the letter is of course to bring about a settlement without losing a cus-

[1] Suppose the order was shipped July 1, and the terms are thirty days net. This slip will be filed in the "tickler" thirty days ahead. Accordingly on the first of August the attention of the clerk in charge will be called to this account. He then consults the ledger and ascertains whether the bill has been paid or not.. If not, a statement is made out in duplicate and one is sent to the customer; the other is filed ahead again for a period of ten days. The account is now definitely on its way through the collection department.

tomer. The correspondence should at least encourage customers to be frank and open with the house and let it know where he stands regarding the account. Circumstances must govern the procedure from now on, but at no time should a firm depart from a dignified attitude. A common practice is to send the customer a draft expecting him to accept it. This was a very efficacious method at one time, but the awe which the method inspired in the country merchant has somewhat disappeared. When the unhonored draft is returned, some collectors use the telegram to good advantage. A sharply worded message expressing surprise and demanding immediate settlement is sent to the delinquent. The chief virtue in all of these methods is that they impress the customer with the fact that the creditor is actively vigilant and desires to do things in a business-like way.

Before the final appeal to the law is taken many houses make it a practice to send the credit man to the debtor to seek by a personal interview the true condition of affairs. Often such visits prove of the utmost value not only to the house, but to the customer. The larger experience of a broad-minded credit man is brought to bear upon a situation that may have proved to be too complex for the local tradesman and by kindly advice and helpful suggestions a falling trade is put upon its feet again.

If no satisfaction can be secured by pacific means, the account is put into the hands of an attorney for collection. It is at this point that the red card supplants the white card in the ledger file and stands as a "red flag of warning" to the credit man whenever this account is approached in the future.

70. *Suspended accounts.*—When accounts have assumed such a character that their worth is questionable,

they are separated from the regular accounts and put in a class by themselves. They are known as "suspended accounts." The name indicates their nature. They are held in suspense awaiting developments that will warrant some definite disposal of them.

When an account is given to a lawyer for collection the value of it is diminished as an asset. Conservative business policy dictates that such an account should not be reckoned at its face value. Before charging the account to profit and loss it is segregated from the good accounts in order that its character may not be misunderstood, and put into a suspense account where an approximate value is put upon it until the outcome of the attorney's action definitely decides its true value.

In large firms suspended accounts are given a separate and special treatment by the credit department. The card system is recommended by many as the best method for tabulating data in an orderly and convenient manner. In conjunction with this the correspondence is cared for by a folder system.

Not only does it pay to give adequate attention and care to debtors who have failed to meet their obligations because much more is realized from them, but the information gained under the pressure of the collection department becomes a valuable guide in granting future credit to any such firm as may again apply for it. If the credit man does not sufficiently investigate his bad debts, he will always be in doubt as to the real cause of the debtor's failure. Was it an honorable failure from which the man emerged with an unstained character, or was it a failure due to lack of moral stamina? The files of the suspended accounts should disclose the answer.

71. *Analysis of credit information.*—The supreme

test of a credit department's efficiency comes when it must analyze the information that has been laid before it. It is then that the credit man must bring into play all of his natural ability and experience. The broader his knowledge of human nature and the more constant his contact with the men in the trade, the easier it will be for him to detect pitfalls into which untruthfulness, carelessness or incapacity might lead him. But even after he has decided the character and capacity of the customer asking for credit, there is still the necessity of clearly comprehending the financial statement which he presents to the credit man. The latter's knowledge of the trade and its tricks will be of special aid to him in this connection. He can the more surely estimate the merchant's paying power because he knows the quality and permanency of the demand and the rate of turnover pertaining to this particular line of goods. The relation of the assets to the liabilities assumes, therefore, an imposing place in directing the decision of the credit man. In order to analyze a statement critically with this point in view or to examine a customer's books for this purpose, the credit man could bring to his assistance no greater aid than a thorough knowledge of accounting. Each particular trade has its peculiarities, and a credit man in sending out statements to be filled in by prospective customers shows his suspicions by the questions he asks. A knowledge of accounting enables him to pick out the weak and hidden places in the report when it is filled out and returned. It is a common thing in business circles to speak of the exaggerations and misrepresentations presented in the balance sheet. According to Professor Bolles, the man unfamiliar with the science of higher accounting should ask the following questions when analyzing a statement:

(a) Is the capital sufficient and has it been contributed in cash; if not, what does it represent?

(b) Who constitute the firm, and do the partners understand the business?

(c) Has the stock been taken in at a fair figure and has due allowance been made for depreciation? This is very necessary to ascertain in large manufacturing concerns.

(d) What about accounts and bills receivable? Has due allowance been made for doubtful credits and have bad debts been written off or provided for?

(e) The liabilities of the firm should be carefully examined; are they heavy; are they continuously large; to whom and what for?

To this list, Mr. Thorne, in his paper on "What the Statement Means to a Credit Man," would add:

(f) Is the buying legitimate in amount?

(g) Do they carry other lines beside their principal business? If so, where does the capital come from?

If the credit man can induce the customer to give him such a detailed statement of his financial affairs, he has something tangible to work upon. He asks what property has the applicant which is unincumbered and in good shape; what is the cost of his merchandise; how much has he owing him in outstanding accounts; how much cash has he on hand and in the bank? What is a conservative estimate of his plant and machinery? The sum of all of these items will give him his active business assets. Then the credit man examines the other side of the statement and searches it with the following questions in mind: How much does he owe for merchandise? What is the amount of borrowed money, either from the bank or from individuals? What is the

amount and nature of other obligations? When these items are added together the liabilities are exposed.

In order to determine the basis on which to lend to this customer the credit man must deduct the sum of the liabilities from the sum of the assets. The surplus represents his active capital. It is very essential to make a careful comparison of a firm's debts or liabilities with its assets.

Mr. Marshall, president of the New York Credit Men's Association, in his excellent paper on "The Credit Man" gives the following illustration in which are compared the statements of three business men having the same capital in their businesses:

Assets.	A	B	C
Machinery	....	....	$10,000
Merchandise	$10,000	$20,000	10,000
Accounts	5,000	15,000	10,000
Cash	5,000	1,000	10,000
	$20,000	$36,000	$40,000
Liabilities	....	16,000	20,000
Capital	$20,000	$20,0[illegible]	$20,000

Apparently these three men are in the same financial position. Each has $20,000 capital. It is only when the nature of the assets is examined that the true position of each is revealed. A, who has no liabilities, but has $5,000 in the bank, is unquestionably much stronger than either of the other two in so far as this one item is concerned. When in comparing the accounts, it was discovered that A's accounts could easily be collected when due, but that B's and C's contained a large proportion of bad debts, many of them having been carried long beyond the period of "reasonable doubt," the

credit man would again decide that A's statement is the stronger one on which to give credit.

The same test might be applied to the item of merchandise. If A had on hand a commodity for which there is a constant and large demand, that is, goods which might easily be turned into cash on short notice and at a price very close to the appraisal in the statement, there would be no need to hesitate on the part of the credit department in extending a liberal credit to this man. On the other hand, if B's merchandise statement is a valuation upon a novelty of doubtful demand or if it includes a good deal of old stock, the $20,000 would need to be much reduced before a reasonable credit basis is reached. For it is quite evident that the cash on hand would not go far in liquidating the liabilities while the nature of the accounts would not warrant their acceptance at the stated value. Therefore, to meet the liabilities on short notice, at least part of the merchandise must be disposed of. B. is in a better condition than C. He is at least solvent.

With C, the relation of the liabilities to the assets and the nature of these items discloses a very unsafe basis for the giving of credit. He has $20,000 of liabilities that must be paid. He cannot pay it out of real estate unless he sells it. He would be compelled to dismantle his plant and hence disrupt the whole business should he attempt to realize on his machinery. If the general experience is to be relied upon he could not collect all of the outstanding accounts. But even if the machinery, merchandise, real estate, and accounts were disposed of at a forced sale, the amount they would bring in would be far below the book value as represented in the statement. In reality, C is practically bankrupt.

Therefore it is seen that although these men may be rated the same, it is the credit man's duty to ascertain the nature of the capital. As a general proposition, says Mr. Marshall, a man whose liabilities exceed 50 per cent of his assets is not in a healthy business condition.

72. *Credit associations in Canada.*—The enormous expansion of Canada's domestic trade in recent years has quite naturally given rise to the formation of various credit associations. The lessons learned in the United States have been of the utmost value to Canada. The scope and method of Canadian credit associations are based upon the practice and precedents of those which have worked to best advantage across the border. The most important organization in Canada is the Canadian Credit Men's Association, which was organized in Winnipeg in 1909. This association has now passed the experimental stage, and is firmly established with seven different offices in full operation extending from St. John, N. B., to Vancouver, B. C. The Toronto branch was organized in 1911, eighty-nine members being on the roll at the time the office was opened. Since that time twenty-eight of these members have been transferred to eastern offices, which were opened later, leaving sixty-one of the original members with the Toronto branch. The membership of the Toronto branch has steadily grown: and at the end of 1918 was expected to reach two hundred and fifty.

This association is composed exclusively of manufacturers and jobbers, who have found that it is to their mutual advantage to co-operate with each other to support deserving and thoroughly honest retailers. At the same time they have found that very considerable advantages have been gained by eliminating weak and fraudulent accounts. It was the practice, formerly,

where a wholesaler found himself forced to carry a bad account to "unload" it at the first opportunity on some competitor. At the present time the wholesalers are lending one another mutual aid and support by freely exchanging information concerning their accounts and customers. Thus, through the medium of credit associations, undesirable accounts are being eliminated while those of honest and efficient customers are protected.

The Canadian credit associations are engaged in numerous activities designed to improve the general conditions of trade. For instance, they are educating the retailer to carry more and better fire insurance. They are teaching retailers, too, to furnish more complete financial statements to their supply houses; to prosecute cases of fraudulent failure; to unite in carrying deserving debtors, who through some misfortune have got into deep water; and to secure the passing of better commercial laws that will be so worded that the spirit and intent of the legislation may not be evaded by fraudulent dealers.

The credit associations are not working in opposition to any class of trade. They are, for example, in absolute harmony with such organizations as the Retail Merchants' Association, the Canadian Manufacturers' Association, the Wholesale Grocers' Guild, and others. In the case of the Canadian Credit Men's Association each member, on joining the association, becomes the owner of one share of the capital stock of the organization. This association is a limited liability company with a Dominion charter. All members thus have an equal voice in the operation of the association. Each member signs a contract agreeing to exchange, through the medium of the association's offices, his ledger information on any account required. In return for furnishing his figures on any customer, he receives the figures of from ten to per-

haps one hundred other members who may be selling to the same customer. In this way, a fairly accurate commercial history of a retail dealer is secured. In many cases such knowledge has prevented fraudulent accounts from being started, and has thus safeguarded members from considerable losses.

Assignments are handled by the association as efficiently and economically as possible. When a debtor is in deep water the supply houses get together with him, and arrive at some arrangement that is fair and equitable to all. Many honest retailers have been carried over a period of depression, and kept on their feet, through the activities of the association, where otherwise they would have been obliged to assign, with a definite loss to themselves and to the houses that had furnished them credit.

By way of illustration two actual reports issued by the association are given. The longer report refers to a dealer who has no credit rating. He ordered $1,800 worth of goods in Montreal, and the wholesaler after receiving this report filled his order. The smaller report refers to a dealer who ordered $150 worth of goods in Toronto, but the order was cancelled after this trade report was received. Later, two other firms, not members of the association, shipped him goods, one for $40 and the other for $100. Shortly after, the dealer assigned and none of the creditors has received a dollar; so that this one report saved $150 for one wholesale firm, and might have saved $140 to the other two firms had they been members of the association, as they now are.

78. *Bankruptcy procedure in Canada.*—The overhauling of the bankruptcy laws in the several provinces of Canada is becoming more and more urgently neces-

TRADE CLEARING REPORT

ON **February 8, ——**

TELEPHONES MAIN { 5042 / 5043

58 Front St. West
TORONTO, ONT.

FORMER CLEARINGS	DATE	NO. OF HOUSE REPORTING	OWING	OVERDUE

Business	*Owing*	*Overdue*	*Highest Credit*	*How Long Sold*	*Manner of Paying*
B. & S.	407	407	600	Years	Very slow, a/c closed
H. C. & F.	0	0	533	Years	Placed for collection
Harness	0	0	77	5 years	Slow
Teas	0	0	50	5 years	Fair
P. & G.	19	0	19	1910	Slow pay
Gloves	9	9	145	1908	Slow
Wall paper	0	0	52	Once	(Very slow, collected by attorney)
Sundries	40	40	350		
	475	456			

TRADE CLEARING REPORT

ON **September 30, ——**

TELEPHONES MAIN { 5042 / 5043

58 Front St. West
TORONTO, ONT.

FORMER CLEARINGS	DATE	NO. OF HOUSE REPORTING	OWING	OVERDUE

Business	*Owing*	*Overdue*	*Highest Credit*	*How Long Sold*	*Manner of Paying*
B. & S.	38	....	227	March 1911	Takes Discount
Rubber	3122	....	3122	Nearly 2 yrs.	Takes Discount and accepts drafts
Shoes	80	....	600	1910—drafts	full time—Satisfactory
Rubbers	....	....	200	1st order	Not delivered
B. & S.	131	....	131	1st time	
B. & S.	390	....	390	Just shipped	Sept. 15 asks cash disc.
B. & S.	150	....	150	Just sold	
B. & S.	....	....	468	Feb. 1906	Net terms—prompt
Gloves	....	....	44	1905	Fair
Sundries	112	....	112	7 years	Discount
B. & S.	340	....	580	1 year	Good
B. & S.	4700	2300	7000	10 years	Fair
				(Reducing account steadily	Quite satisfactory)
B. & S.	12	....	597	Years	Good
B. & S.	35	....	200	2 years	Discount
	9110	2300			

sary; it is altogether likely that any party leader who will bring forward a definite policy of improvement in this regard will be assured the solid support of the business community in his province without regard to party affiliations.

Montreal is the principal center of Canadian business and finance, and hence the need of reform is more keenly felt in the Province of Quebec than elsewhere. The procedure for the administration of bankrupts' estates in Quebec is faulty in the extreme; but, even so, it is hardly inferior to that in vogue in other provinces of the Dominion. The present state of the bankruptcy laws compels creditors to accept almost any kind of a voluntary settlement rather than allow the estate of the insolvent to pass into the hands of an administrator. Thus, the visible volume of insolvency is greatly decreased, although the real losses resulting from inability to pay debts are not reduced, but are merely concealed by being kept private. The insolvency totals are thus kept down, while the private and unreported losses may continue to rise without anybody perceiving them. The net advantage is distinctly questionable. In cases where the great bulk of the insolvent debtor's liabilities are to large creditors it is becoming a rare thing for the estate to be placed in bankruptcy; the large creditors stand to lose less by taking over the business and settling with the smaller creditors in full.

The powers of liquidators may not be very extensive in the direction of expediting an efficient settlement of the estate, but they are very large in the direction of delaying and obstructing that settlement. This holds especially true of Montreal and its tributary territory. In that city many liquidations have been drawn out to an inordinate length, with enormous loss to the creditors

through the tying up of the money to which they are rightfully entitled. The temptation to the liquidator is very great. Every day's delay is a source of direct profit to him; and there is no machinery by which he can be forced into expeditious action except in the case of entire unanimity among the creditors. A single dissenting creditor can stave off the final settlement as long as the liquidator desires. No business man doubts for a moment that dissenting creditors are not infrequently acting in collusion with the liquidator.

The men who are selected for the responsible (and profitable) task of liquidating a large insolvent estate do not always enjoy the confidence of the business community. Some of them are admirable officials, and very useful service has been rendered by the trust companies in this regard. But trust companies are seldom employed except when there is a bond issue which has to be safeguarded in the winding-up proceedings, and it is undeniable that the results in cases where the creditors themselves agree upon the liquidator are far better than in cases where the court makes an appointment on its own initiative.

The reason why, on the whole, there has been such general apathy throughout Canada on the question is that trade has been exceptionally good during recent years. Thus the evils of a bad bankruptcy system have not pressed so heavily on the community as would otherwise have been the case. But trade will not always and perpetually remain good. It is important that legislating bodies throughout Canada should be made to realize the dangers of the present bankruptcy procedure, and the urgent need of improved and uniform bankruptcy laws throughout the Dominion.

74. *Some evils of Canadian bankruptcy laws.*—The

chief, and almost the sole, cause of the unhealthy condition of insolvency procedure in Canada, is undoubtedly the carelessness of creditors. It is quite possible, even under existing laws and methods, for the creditors of an insolvent estate to protect themselves against malpractices of liquidators. But the process of self-protection requires a considerable amount of time and care; and the prevalent disposition of the Canadian merchant, professional man or other creditor, when his debtor seeks refuge in bankruptcy, is to write off the losses and attempt to make them up elsewhere.

As a result of the practice of extending long-time credits to plausible borrowers dividends out of bankrupt estates are exceptionally low. An experienced liquidator has estimated that 10 per cent is a usual figure for insolvent estates to pay, and 20 per cent is felt to be a high figure. A man with a claim for $100 will go to a lot of trouble to collect that claim in full from a delinquent but solvent debtor, but will give himself little concern as to whether an insolvent estate pays him $20 or $15. By that carelessness, aided by certain laxities in law and practice, there is provided a fertile field for the operations of unscrupulous liquidators.

The law in the Province of Quebec, for example, assumes that the creditors in a body, in the larger matters —such as the choice of the liquidator, the policy in regard to carrying on the business, etc.—will look out for their own interests; and that in matters of detail the inspectors whom they appoint to watch the operations of the liquidator, and who are usually important creditors, will safeguard the interests of the whole body. In practice the assumption is never borne out; the liquidator is left with an extremely free hand. Inspectors, as a rule, are lacking in the sense of trusteeship; they become reconciled

to their own losses, and see no reason why anybody else should expect them to give up their time to the gratuitous task of insuring that every possible dollar is realized from the estate. They are supposed to keep a check upon the liquidator; but if they fail to do so, there is no check upon them—no publicity for their work, beyond the right of other creditors or any citizen to inspect the accounts at the liquidator's office. This is a right which is rarely enforced; and there is no prospect of criticism at a meeting of the creditors because the creditors have practically no knowledge of the condition of the estate, at the time of insolvency, on which to base criticism. It has been proposed, and there seems much force in the suggestion, that liquidators should be required to file in court a detailed statement of all assets at book value at the time of taking over the estate, a process which would impose upon them some obligation of explaining the disposition of such assets.

This state of affairs has given rise to a class of individuals who take advantage of the business ignorance of the general creditor. Their emissaries are in constant communication with the minor officials of the courts and are posted, in advance of publication, concerning applications for winding-up orders. In cases where there is a preponderance of large trade accounts they do not concern themselves; but where the creditors are the general public they secure as many powers of attorney as possible, and turn up at the meeting with a volume of support which easily entitles them to selection for the post of liquidator. The sole source of their strength is this advance information and ability to round up powers of attorney, which exclude any ordinary conscientious auditor or accountant from securing the appointment.

The law requires the personal presence of the inspec-

tors at various stages of the more important negotiations, but it is notoriously ignored, and nobody, least of all the inspectors, makes any trouble. The law requires that the liquidator shall bank all sums belonging to the estate as soon as the amount in his hands is one hundred dollars; but this is equally neglected, while often the bank-book is not even produced at meetings, although the minutes have to declare that it has been so produced.

The task of bettering these conditions lies with the creditor. It is his money which is being wasted. So long as creditors are individually and collectively careless about it they will, individually and collectively, suffer loss. Unfortunately, by this carelessness, the creditor injures foreign creditors, who have to rely to some extent on Canadian creditors to protect the interests of the whole estate. The credit associations which are springing up in Canada are doing a highly necessary work in connection with the liquidation of estates; and should receive the support of every Canadian business man.

75. *Liquidation in England.*—As has been said, the failure of the liquidation laws of Quebec is typical of those in the several provinces. The whole law of bankruptcy in the Canadian provinces needs revision and unification. In bringing this about much can be learned from England. The striking characteristics of the insolvency procedure of England is the official part taken in the proceedings by the Board of Trade which gives to the representatives of the whole commercial community a share of the responsibility for the effective working of the Bankruptcy Act and the safeguarding of the interests of honest debtors and creditors. In Canada, as already explained, the general practice is to treat bankruptcy proceedings too much as if they were purely a matter between the estate and the creditors alone, and

any steps indorsed by a majority of the creditors or their representatives should be accepted without further question.

The English system is superior to that in vogue in Quebec and other Canadian provinces, in providing a permanent public official closely associated with the Board of Trade. He has the title of Official Receiver, and automatically becomes provisional liquidator or trustee upon the issuance of a winding-up order or the filing of a petition in bankruptcy. A particularly interesting feature of his duties is that in his preliminary report he shall declare "whether, in his opinion, further inquiry is desirable as to any matter relating to the promotion, formation or failure of the company, or the conduct of the business thereof," and may further report "whether, in his opinion, any fraud has been committed in the promotion or formation of the company, or by any director or officer of the company, in relation to the company since the formation thereof." The public official may be superseded by an order of the court, if the creditors and shareholders apply for the appointment of a special liquidator. The result is to afford the same freedom for the selection of any specially competent person to be liquidator as exists in the Canadian provinces, with the very valuable proviso that the whole business of the insolvent must first pass under the eye of an experienced and impartial official responsible directly to the court and the Board of Trade.

The Board of Trade again enters upon the scene when it comes to auditing the accounts of the liquidator (whether special or official receiver), a service which it must perform twice a year. There is absolutely no provision for official audit of liquidators' accounts corresponding to this, in most of the Canadian provinces—

Ontario being a striking exception. The current assumption in Canada is that if the inspectors appointed by the creditors are satisfied with the accounts, nobody else has a word to say.

An excellent feature of the English Act is the furnishing—along with the first summary of the affairs of a debtor—of a statement "showing thereon in red ink the amount realized and explaining the cause of the non-realization of such assets as may be unrealized." The first purpose of the English Act seems to be the obtaining of a clear statement of the affairs of the insolvent business, with a view not only to the satisfaction of creditors, but also to the preservation of good business morality and the punishment of wrongdoing. The ideal is not in evidence in Canadian bankruptcy practice. Creditors in Canada have a very limited interest in the punishment of wrongdoing or in the preservation of a high level of business morality. The business community certainly has much to learn from English precedent and practice.

PART III: TRAFFIC

CHAPTER I

CANADIAN TRANSPORTATION

1. *Early waterways.*—In the beginnings of industry and commerce, waterways are all-important. In a new country, such as Canada, one finds in the history of its settlement that influence of waterways which on account of the lapse of time is more masked in older lands. In Nova Scotia, the extensive coast line and the numerous rivers determined the settlement. In Nova Scotia, as in England, it is difficult to find any point more than forty miles from the sea. This made the sea an important element both in the settlement and in the trade of Nova Scotia. In New Brunswick, the coast lines of the Bay of Fundy, the Bay Chaleur and the Gulf of St. Lawrence, and the course of the river St. John co-operated in determining where settlement should be. As late as the middle of the nineteenth century, New Brunswick was divided into long lines of settlement along the watercourses with tracts of wilderness between, which were traversed at rare intervals by roads leading from one line of settlement to another. It was natural that lumbering and its ancillary industries should first attract attention.

In the colonies of Upper and Lower Canada, the St. Lawrence and the Great Lakes were from an early date an important factor in settlement. To-day the

white-walled villages of Quebec which line the St. Lawrence, in almost continuous formation, while in part due to the French-Canadian system of subdivision of property, are also a reminder of the time when the river was the only highway. As Parkman said, "One could have seen nearly every house in Canada by paddling a canoe up the St. Lawrence and the Richelieu."

The activity of the fur trader and the zeal of the missionary opened up the route to the Upper Lakes, by way of the Ottawa River, Lake Nipissing and Georgian Bay, which was itself an old warpath route of the Iroquois. The direction of French settlement and trade in Canada was fashioned by the location of the Ottawa and of the St. Lawrence.

With the settlement of the United Empire Loyalists in Upper Canada, the St. Lawrence and Lake Ontario obtained an added importance. Gradually settlement filled in the shadowy outlines between Kingston and Lake St. Clair. The trade importance of the lake and river route was early recognized and plans for the construction of canals around the impeded sections of the St. Lawrence were developed. Merritt saw that the construction of the Welland Canal would make the route from Lake Ontario to Lake Huron one. The Lachine Canal, the other St. Lawrence Canals, the Ottawa Canals, the Rideau Canals all bear on the position which was taken by Colonel By in 1820 when he stated that the construction of an improved waterway from the Upper Lakes by way of the St. Lawrence to the sea would attract the growing trade of the western territory of the United States to a Canadian route, thereby assisting in building up the Canadian towns along that route and increasing the shipping and export trade of Canada.

2. *Improved highways.*—While the waterways facilitated settlement and permitted lumbering to be carried on, the development of agriculture was dependent upon improved roads. Roads were necessary if the country was to have width instead of mere length. Roads were necessary if there was to be any adequate organization of government. One of the first acts of the first Parliament of Upper Canada was concerned with highways. Soon the policy of constructing "Grand Trunk" roads was undertaken. In Upper Canada, Yonge Street leading from Toronto to Lake Simcoe, the Dundas Road and the Talbot Road were undertaken. A similar policy of constructing Grand Trunk roads was undertaken in the maritime provinces. By 1835, New Brunswick had roads radiating from St. John to Miramichi, St. Andrews and Fredericton. In Lower Canada roads were constructed to connect with the United States frontier.

The improved highways played their part in the development of trade. With the opening up of Yonge Street, the North West Fur Company diverted its cargoes from the Ottawa to the St. Lawrence, Lake Ontario, and this new highway. The importance of this early stage in the transit trade across Canada is seen in the fact that British goods which thus found their way to Mackinaw were thence distributed as far south as the Spanish settlements at the mouth of the Mississippi.

While the construction of plank roads in the County of York in Upper Canada increased the values of the lands located along them by 50 per cent, the disadvantages of the existing system of transportation were seen in the prices of agricultural commodities. Near St. Thomas, at one time, eighteen bushels of wheat were

exchanged for a barrel of salt, while one bushel of wheat was given for a yard of cotton. The dependence of Montreal on water communication and winter roads was such that as late as 1851 the cost of food and fuel doubled while the ice was forming on the river. The movement of freight was slow and expensive. From the Townships of Innisfil and Vespra, it cost 7½d per bushel to convey wheat to Lake Ontario. From Laprairie to St. Johns, a distance of fourteen miles, it took a day to haul three barrels of ashes in a cart drawn by two horses. Stage-coach movement had equal drawbacks. Between Montreal and St. Hyacinthe, a distance of thirty miles, it took a stage-coach twelve to fifteen hours in the fall and spring.

8. *The Canadian railway system.*—In Canada, as in the United States, it was soon felt that waterways, whether natural or artificial, and highways were inadequate for the rapid development of settlement and trade. The activity of railway construction in the United States was a stimulus to railway construction in Canada; for Canada feared that the development it had hoped to obtain through the improvement of the lake and St. Lawrence route would be lost if railways were not constructed in Canada as well. As early as 1828 railway construction was discussed in New Brunswick. The Champlain and St. Lawrence, a short portage line of sixteen miles in length, which was opened in 1836, was concerned simply with facilitating the north and south movement of traffic to and from Montreal. But its greater significance consists in the fact that it was the beginning of that great Canadian railway development, which, important as it is from a trade standpoint, is still more important from that of national development. For to understand the significance of this

railway development is to understand why and how Canada has grown.

In the year 1912, Canada had in operation, according to the government returns, 26,727 miles of railway. To this must be added 1,622 miles of the Grand Trunk Pacific, which were not included because they are not "open for traffic," in the sense such opening is defined in the Railway Act. That is to say, Canada had 28,349 miles of railway carrying traffic. To-day there are over 30,000 miles of railway in this class, a total exceeding that of Great Britain and Ireland. In addition there are about 8,000 miles under construction.

Down to Confederation there were constructed 2,278 miles of railway. In the year ending December, 1912, practically the same mileage was constructed—to be exact, 2,232. The railway mileage has almost doubled since 1896.

In the railway construction, as it stood in 1867, the Grand Trunk and the Great Western were the most important so far as Upper and Lower Canada were concerned. The Grand Trunk, which had been undertaken to afford a line of communication from Montreal to the western boundary of Upper Canada, was also concerned with the more ambitious project of connecting the inland provinces with the maritime provinces. The Great Western, running through the rich farming country of Ontario between Lake Ontario and Lake St. Clair, had come to be closely allied with various American lines, more especially those of the Vanderbilt group. So close were its traffic relations that one of its shareholders, not in criticism but in recognition of a fact, said that it was an "American line." Owing to its geographical position it afforded a link in a direct line of communication between New York and the New

England States on the one hand, and the Central Western States on the other. As a result of this it became embroiled in American rate wars and its relations with the Grand Trunk, which was also struggling to obtain a share of the American traffic, were normally strained.

In Nova Scotia and New Brunswick, after a varying choice between government and private ownership and construction, a number of small, somewhat isolated, lines had been built.

4. *Western and northwestern railroads.*—The Canadian Pacific and Canadian Northern, which have come into existence since 1867, are a recognition of the change wrought by Canada's acquisition of territory west of the Great Lakes. They are also an effect of that change. The Canadian Pacific, which was the condition of British Columbia's entrance into Confederation, was a magnificent leap in the dark, which has, however, been justified by results. The Canadian Northern, which began in a feeble way in 1896, when the nucleus of the system, the Lake Manitoba Railway and Canal Company, was acquired by MacKenzie and Mann, is a fruit of the later period when the great development of the North West was just beginning. The Grand Trunk, in the early days of the Canadian Pacific project, had the opportunity to construct that line, but could see no traffic in it. In 1903, through its controlled line, the Grand Trunk Pacific, it also entered the North West.

5. *Expansion of Canadian railway system.*—While the railway construction of the United States has of recent years been approaching the saturation point, it may be pointed out that the mileage constructed in Canada in 1912 was equal to three-fourths of that constructed in the United States in the same year. While railway expansion has been fairly general in Canada,

71 per cent of the railway mileage built in 1912 was west of the Great Lakes. Putting the matter another way, it may be said that for ever ·ay of the year there was, west of the Great Lakes, · average construction in 1909 of 2.6 miles; in 1910, ·.11; in 1911, of 3.08, and in 1912, of 4.3 miles.

Since 1867, there has been a steady movement towards limiting the number of railways. Larger companies have eliminated the smaller ones by absorbing them. This concentration of the control of mileage has been in the main along the lines of east and west lines of communication.

6. *Influence of trunk lines.*—While the Canadian Pacific was undertaken to open up the North West, it was clearly recognized in its charter that lines east of Callender, near Lake Nipissing, were essential to it; and it was given power to acquire and construct such lines. This power, notwithstanding the vigorous opposition of the Grand Trunk, it actively exercised. The Grand Trunk claimed that the rôle of the Canadian Pacific was to collect the traffic of the North West and hand it over to eastern connecting lines. The Canadian Pacific said this would leave it at the mercy of its connecting lines.

While the Canadian Pacific was thus concerning itself with obtaining an entrance into the southern peninsula of Ontario and linking its lines west and east through Ontario to further connect with lines easterly through Quebec, the Grand Trunk endeavored to checkmate the Canadian Pacific, and in this endeavor rapidly acquired such lines as the Great Western, the Northern, the Hamilton and North Western, and the Midland. This period of hostility between the two railways, with its attendant expansion by consolidation, ended in 1890

when the Canadian Pacific had obtained a western outlet at Windsor and the railway map had been remade.

The struggle of the Grand Trunk had given it control of north and south lines in Ontario, connecting with the strategic points of entrance from the northern portions of the province. It had at the same time consolidated its system in that province. By undertaking the construction of the Grand Trunk Pacific it took up the matter of east and west development.

The Canadian Northern has been built up by original construction, lease and acquisition of control. An integral portion of its system is the portion of line constructed in Manitoba by the Northern Pacific, which is leased to that province and by it sublet to the Canadian Northern. Charters of various lines have been obtained in Ontario. In Quebec, the Great Northern came into its hands through control of bonds. The Quebec and Lake St. John and the Halifax Southwestern, although technically separate as being under provincial charters, are a real part of the east and west line it is building up.

While there are some eighty-nine lines of steam railways in Canada, mere enumeration does not show their significance. To the total as given in the government returns may be added the mileage on which the Grand Trunk Pacific had in 1912 "leave to carry traffic." An analysis of the mileage figures shows how highly concentrated the control is:

	Percentage of Total Mileage
Canadian Pacific	41
Canadian Northern	21
Grand Trunk and Grand Trunk Pacific	17

The government lines, comprising the Intercolonial, Prince Edward Island, Temiskaming and Northern

Ontario and New Brunswick Coal and Railway, comprise 7 per cent. The lines of the Great Northern and of the Canada Southern represent jointly 8 per cent. The remaining mileage is concerned primarily with short haul lines of local interest, the average per line being only forty-six miles.

7. *Railway geography.*—The maritime provinces are served by the Intercolonial and the Canadian Pacific, as well as by a considerable number of smaller lines. In Quebec, the Intercolonial, the Canadian Pacific, Canadian Northern, and the Grand Trunk are the most important. In Ontario are found the Canadian Pacific, Grand Trunk, Canadian Northern, Canada Southern or Michigan Central, Wabash, Père Marquette, and Temiskaming and Northern Ontario. Manitoba's mileage is almost wholly made up of the Canadian Pacific, the Canadian Northern and the Grand Trunk Pacific. The latter connects at Winnipeg with the National Transcontinental which runs easterly through Ontario and Quebec to Moncton, New Brunswick, and which will be the eastern outlet of the Grand Trunk Pacific. In addition, the lines of the Great Northern enter Manitoba. Alberta and Saskatchewan are served by the Canadian Northern, Canadian Pacific and Grand Trunk Pacific, as well as by the Great Northern in Alberta. In British Columbia, in addition to the Canadian Pacific, portions of the Grand Trunk Pacific are in operation. The Great Northern also connects the State of Washington with Vancouver, and has mileage in and out of Washington connecting with the mining country of Southern British Columbia. There is also under construction, under a provincial charter, the Canadian Northern Pacific which will connect the Canadian Northern system with the Coast in 1914.

8. *Freight resources.*—Prince Edward Island has as its chief industries agriculture and fisheries. It ranks high in average number of sheep per farm, although the farms are normally small. It does well in root crops. In New Brunswick, lumbering and fisheries are the most important industries. Northern New Brunswick is heavily wooded, and the River St. John and its tributaries facilitate now as they did at an earlier day the handling of logs. Lumber is exported to Europe, South America, the United States and the West Indies. While the province has minerals, these are not as yet commercially important. Its coal is consumed locally. Nova Scotia in 1911 was credited with over one-third of the value of the fishing industry of Canada. It is active in mineral production, especially in coal and iron. The lumbering industry is not of much importance. While the country has rich agricultural possibilities, these have not been fully developed.

Of the agricultural staples, Quebec produces the cereals and root crops. Oats and hay are the most important items in its agricultural production. It supplies two-thirds of the tobacco grown in Canada. Its lumber and the industries dependent thereon, such as pulp and paper mills, are very important. In 1910, Quebec had one-half the pulp mills in Canada. Ontario produces in large quantities all kinds of agricultural produce and live stock and has also a largely developed milling industry. Fruit is produced in the Niagara Peninsula and along Lake Erie. This is for the most part consumed in Canadian cities and towns, thereby creating short haul traffic. Dairying and cheese-making are also important. In minerals, iron, nickel, copper and silver are the most important. The lumbering industry has been important in Ontario from an early

date, and now tends to be concentrated in large industrial concerns. In point of manufactures, Ontario stands first among the provinces of the Dominion.

In Manitoba and Saskatchewan, the all-important industry is agriculture. While wheat has been the predominant factor in Manitoba, attention is now being devoted in greater degree to mixed farming. In northern Saskatchewan, a large saw-milling industry has developed.

Alberta has more diversified resources than the prairie provinces east of it. While Saskatchewan has coal, Alberta has much larger supplies. In the section around Lethbridge, in the Crow's Nest Pass section, and in the territory which the Grand Trunk Pacific is opening up near the Yellow Head Pass, large deposits of bituminous coal are to be found. Ranching as it was in the earlier days is passing with the breaking up of the range. Farming is more diversified than in Saskatchewan. In southern Alberta, there is a heavy yield per acre of winter wheat. Spring wheat, oats and live stock are important items of production further north in the province.

British Columbia has attracted attention because of its minerals. While its gold attracted most attention in the earlier days, its large supplies of coal on Vancouver Island and in the Crow's Nest Pass section are still more important. Lumbering is carried on on an extensive scale. In 1911, the cut was over one billion feet. In the fisheries, British Columbia divides the field with Nova Scotia. Agriculture, although the valleys and bench lands afford rich opportunities, has not been developed to its fullest extent; oats, potatoes and hay are the most important products. Fruit is raised in such valleys as the Okanagan, the Kootenay and the Arrow

Lakes. There is an expanding trade in fruit with the prairie provinces.

9. *Distribution of railway mileage.*—Analysis of the figures of railway mileage as contained in the government returns for the year ending June 30, 1912, shows the following distribution:

Provinces	*Percentage of Population*	*Percentage of Mileage*
Prince Edward Island......... New Brunswick.............. Nova Scotia.................	13.01	11.9
Quebec......................	27.8	14.5
Ontario......................	35.02	32.09
Manitoba..................... Saskatchewan............... Alberta....................... British Columbia............	23.7	41.03

It might seem that in proportion to population the section west of the Great Lakes is well supplied with railways; but this would be a hasty conclusion. Of the total area embraced in the different provinces, the provinces west of the Great Lakes embrace 57 per cent. The need and opportunity for additional railway construction, not only in this but also in other sections of Canada, may be gathered from the following table:

Provinces	*Population*	*Area in Sq. Miles*	*Railway Mileage*	*Miles of Railway per 1,000 Sq. Miles*	*Population per Mile of Railway*
Prince Edward I'd...	93,728	2,184	269	12.31	326.1
New Brunswick......	351,889	27,985	1,545	5.5	227.7
Nova Scotia.........	492,338	21,427	1,357	6.3	362.8
Quebec.............	2,002,712	351,783	3,883	1.1	515.4
Ontario.............	2,523,208	260,862	8,546	3.2	295.2
Manitoba...........	455,614	73,731	3,520	4.7	129.4
Saskatchewan........	492,342	251,700	3,754	1.4	130.8
Alberta.............	374,663	255,285	1,897	0.7	197.8
British Columbia.....	392,480	355,855	1,855	0.5	191.2
Yukon...............	8,512	207,076	102	0.05	.....

10. *Potential railway traffic.*—An interesting index of the traffic possibilities of an agricultural country like

Canada is to be found in the sum total of agricultural production. For while this, on account of local consumption, will of course be much in excess of what moves by rail, it shows the maximum possible movement. It is also of interest as showing where the greatest traffic possibilities are.

Details as to agricultural production and as to live stock are given in a summary which follows. This summary is based in part on the returns of 1910 and in part on those of 1912.

Production of Farm Products of All Kinds, Except Live Stock

Provinces	*Tons*	*Percentage*
Nova Scotia	1,891,684	5.3
New Brunswick	1,711,123	4.8
Quebec	8,038,510	22.7
Ontario	16,628,455	46.9
Manitoba	2,511,385	7.09
Saskatchewan	3,779,280	10.6
Alberta	844,544	2.3
British Columbia	230,472	0.6
	35,395,353	

Total Live Stock

Provinces	*Head*	*Percentage*
Nova Scotia	826,079	5.8
New Brunswick	594,250	4.1
Quebec	3,025,330	20.9
Ontario	6,189,278	42.8
Manitoba	897,306	6.2
Saskatchewan	1,163,689	8.05
Alberta	1,668,259	11.5
British Columbia	87,926	0.6
	14,452,117	

11. *Actual traffic.*—Of course, the potential traffic differs in such items as have been quoted from the actual traffic. The traffic returns for 1912 show that the ton-

nage of agricultural products transported was 50 per cent of that shown in the preceding statement, while in the case of animals and animal products it was about 21 per cent.

Between 1907 and 1912 the total freight traffic of Canadian railways has increased by 58 per cent, from 56.4 to 89.4 millions of tons. In the same period agricultural products carried increased 88 per cent, products of mines 70 per cent, and manufactures 104 per cent. The following table shows the percentage importance of the leading articles carried:

Distribution of Freight Traffic by Percentages of Each Year's Traffic

	1907	*1908*	*1909*	*1910*	*1911*	*1912*
Products of Agriculture	16.85	14.91	17.91	17.31	17.17	19.30
" " Animals	4.37	3.92	4.21	3.71	4.00	3.53
" " Mines	32.68	35.92	35.81	35.11	35.87	35.18
" " Forests	18.11	20.49	17.35	17.54	16.57	15.82
Manufactures	14.11	10.56	11.82	13.44	17.00	18.10
Merchandise	4.08	3.18	3.58	3.39	3.06	3.03
Miscellaneous	9.79	11.02	9.32	9.50	6.33	4.94

Products of agriculture and products of the mines are the most important in point of tonnage. In comparing the increase of tonnage of 1912 over 1907, these two classes are responsible for 63 per cent of the increase. The distribution of carriage between the three leading railroad systems in respect of carriage of agricultural products and mining products works out as follows for 1912:

	C. P. R.	*C. N. R.*	*G. J. R.*
Products of Agriculture	38%	11%	13%
Products of Mines	22%	5%	21%

The passengers carried in 1912 were 61.1 millions, as compared with 32.1 millions in 1907, an increase of 28 per cent.

12. *Traffic interrelations of Canada and the United States.*—Nature has bound up the transportation system of Canada with that of the United States. The waterway, extending into the heart of the Continent, is common to both countries. The southward dip of boundary allows a portion of the Province of Ontario to project far south, with the result that the most direct line between the northwestern states and New England is by way of Sault Ste. Marie and across Canadian territory. The direct lines of the Grand Trunk, Wabash, Père Marquette, and Michigan Central between Detroit and Buffalo traverse the southwestern peninsula of Ontario.

Then, again, the Canadian territory occupies a position of advantage in regard to combination lake and rail lines. Through freight between New England points and the northwestern states may be economically handled by railways running across Canada to Georgian Bay ports, and thence by boat to American lake points.

In the portion of Canada lying east of Montreal, the conditions are reversed. The northward trend of the boundary makes the Canadian railway system dependent in some degree upon United States territory. The northeastern portion of Maine almost divides New Brunswick from Quebec by an intervening neck of United States territory. The most direct line between Montreal and maritime province ports is across Maine. The Canadian Pacific has its short line across Maine to New Brunswick; it also has its connection via Newport, Vermont, with the American lines. The Grand Trunk routes export and import traffic in winter via its line to and from Portland, Maine. West from the "Soo" the Canadian Pacific has its controlled system, the "Soo" line, which enters Canada at Portal, and connects with the main line of the parent railway at Pasqua, near

Moose Jaw. The Canadian Pacific again enters United States territory via Kingsgate, British Columbia, connecting with the lines of the Pacific northwestern states. The Hill lines which are being constructed in British Columbia under the name of the Victoria, Vancouver and Eastern, in tapping the mining section of southern British Columbia, swing back and forth across the international boundary. The Canadian railways own or control more miles of railway in the United States than are owned or controlled in Canada by American lines. West of Port Arthur, Canadian lines across the international boundary at eight points, while the American lines cross at fifteen. East of Port Arthur, Canadian lines cross at twenty-three points, while American lines cross at one.

The result of this interrelation, both of natural and of artificial means of transport, is that in respect not only of through movements, but also of local transport, the railway systems of the two countries are in many respects one. The traffic of the railways in bond through Canada and the United States has become of large proportions. Importations for the eastern states from the Orient come in by way of Vancouver and move east on the Canadian Pacific lines. New England cottons reach the Orient by the same route. Canada obtains imports by way of American ports, and traffic between different parts of Canada, as well as between different parts of the United States, moves through intervening American or Canadian territory as convenience demands.

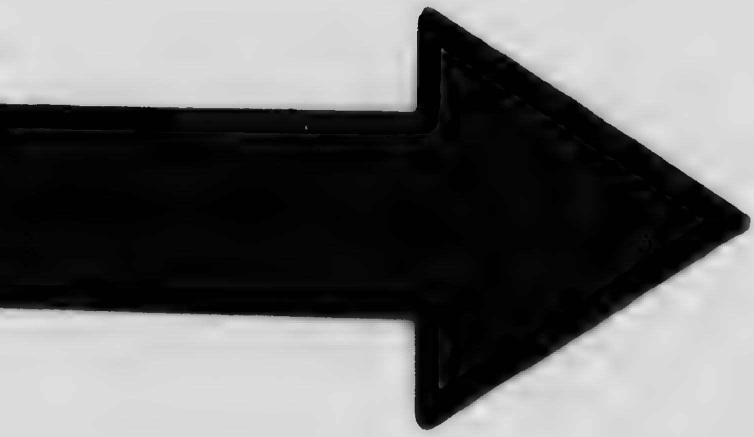
18. *Volume of transit movement.*—What the volume of this in transit movement is to-day it is impossible to say. It has been estimated that taking the period 1868-1894, the average annual value of the domestic transit

trade from point to point in Canada was $7,500,000. The United States Treasury Department issued at one time a special circular covering the period 1894 to 1897. This showed the statistics for the domestic transit trade of the United States. The statistics for the Canadian domestic transit trade have not been kept.

Although this trade is of considerable advantage to the Canadian shipper, it is probably of much smaller proportions than the American domestic trade. This latter trade includes tonnage from practically all the various lines of industry in the United States; and all the states are interested in it. The leading points through which the tonnage concerned in this traffic moves are Port Huron and Detroit, Michigan, Suspension Bridge and Buffalo, New York. The special return of the Treasury Department above referred to gives the following data concerning the domestic transit trade between points in United States territory through Canada:

Year	*Number of Cars*	*Weight of Contents in Tons*
1894	425,809	7,847,058
1895	430,678	8,068,512
1896	430,049	5,964,405
1897	443,875	5,351,350

[redacted]



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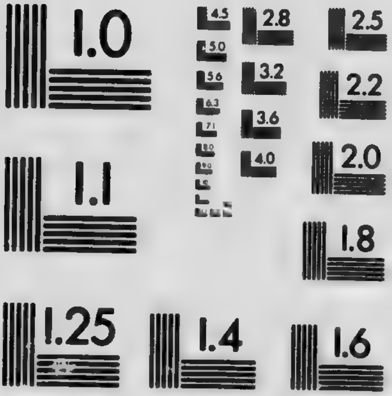

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CHAPTER II

FREIGHT CLASSIFICATION

14. *Classification fundamental.*—A shipper of freight must acquaint himself with the freight classification and the class tariffs. In some cases he must consult commodity tariffs as well. Class tariffs and commodity tariffs are considered in the next chapter. A classification is in effect a ready reference list of the articles of freight which a railway holds itself out to carry for the public offering traffic.

Logically and historically, the striking of the rate comes first; but in practice today the classification comes first. Industry has become very complex and the articles offered for carriage are many and diversified. It is obvious that to carry in a tariff by specific reference the names and rates of the commodities which the railways hold themselves out to carry would make the tariffs exceedingly voluminous.

Even in early traffic conditions it was recognized that, although the articles and rates to be carried might be included in a single sheet, there must be some system of grouping and differentiation of charge. The first tariff sheet in the United States was issued August 27, 1816, by the Lake Champlain Steamboat Company, and set out the following articles and rates:

Pot and pearl ashes, per bbl.	$1.00
Provisions per hundred	.75
Flour per bbl.	.50

Firkins of butter or lard	$0.25
Tierces of seed or salt	1.25
Tierces of rice	2.00
All other articles (except bullion or specie), per ton	5.00

In the days of wagon transportation two classes were recognized—light and heavy articles. The rates on the former were assessed on the cubic foot; on the latter, on the hundred pounds. As late as the middle of last century, the railways of the United States arranged their classifications to suit their varying conditions and needs. The grouping adopted was usually a simple one. A few examples from the year 1847 will show this. The Nashua and Lowell, which was fifteen miles in length, had only one class, and freight was charged $1.00 per ton for the distance. On the Boston and Worcester, a somewhat more elaborate, although still simple, grouping was made:

Coal, iron, lumber and manure	4c. per ton mile
Heavy merchandise, e. g., sugar, salt, butter	6c. " " "
Groceries and dry goods	6c. to 8c. " " "
Light and bulky merchandise	6c. to 10c. " " "

The Boston and Maine, then seventy-one miles in length, had two classes, viz.:

Coal, iron, manure, lumber, salt, sugar, butter and groceries, $2.20 per ton for the whole distance.

Light and bulky merchandise and dry goods, $3.62 per ton for the whole distance.

The Concord also had two classes.

The ratings of the classification are either for less than carloads (L.C.L.), that is to say, for one hundred pounds or for multiples of one hundred pounds charged as a

multiple of the hundred pound rate, or for carloads (C.L.). Where no distinction is made in rating in respect of quantity between a carload and a smaller shipment and the rate is the same per hundred pounds for the smaller as for the larger shipment, it is called an any-quantity rating. An any-quantity rating enables the small shipper to compete on fairly equal terms with his more powerful competitor.

It is contended by the railways that when carload ratings are provided, they should represent a legitimate commercial necessity and a genuine carload movement. That is to say, the average bulk moving should be such as to justify the C.L. rating. From the standpoint of the railway, it is articles which are traffic producers, such as fuel, raw materials, productive implements or machinery, building materials, foodstuffs other than luxuries, which should have the first consideration in granting C.L. ratings.

The railway position in regard to the conditions which justify granting C.L. ratings may be summarized as follows:

It is to the interest of the railways, as well as to the public, that rates be low enough, but not below a remunerative point, to permit the general movement and distribution of commodities in general demand in large quantities for construction, building, manufacturing and other purposes. It is a sound rule for railways to adapt their classification to the laws of trade; if the article moves in sufficient volume and the demands of commerce will be better served, it is reasonable to give it a carload classification. A lower rate for carloads than that applied to shipments of light traffic in less than carload lots should only be required upon circumstances and conditions of service to the large shipper so dissimilar

as to require, in the line of equal treatment, a less rate than is made for the small shipper. When a claim is made for lower rates for carload shipments than those applied to shipments of light traffic in less than carloads, it should be shown that failure to apply such lower rates results in unjust discrimination.

The objection of the railways to granting all commodities C.L. ratings is in great degree due to their fear that if this were done there would, through the use of the mixing privilege, which is referred to later, be a building up of a carload composed of less than carload quantities. Looked at from the standpoint of the cost of the service, the carload movement is less burdensome than the less than carload movement.

While in the early days, when hauls were short, very simple grouping was possible, and while it was even possible for a single sheet to set out both the commodities and the rates, modern business conditions and the increasing length of the haul have wrought great changes. So complex has industry become and so many and diversified are the articles offered for carriage, that the tariff of Canada, with its 711 items, is short and simple as compared with the Canadian Classification which, with its 3,742 L.C.L. ratings and 2,347 C.L. ratings, covering 7,011 items, enfolds a group of commodities stretching from acorns to zinc washers. A similar complexity is to be found in the United States, where the Official Classification carries some 10,000 items. In the Southern Classification there were, in 1908, 3,503 L.C.L. and 773 C.L. ratings; in the Western Classification, 5,729 L.C.L. and 1,690 C.L. ratings; while the Official Classification had 5,852 L.C.L. and 4,235 C.L. ratings.

Under such conditions the attempt to include in each tariff all articles whether of actual or potential carriage

would make the tariffs bulky and cumbersome. In the item of printing alone, it would mean a burdensome expense. It is, therefore, necessary to have some ready reference work (which the Classification is) which sets out what articles the railway is prepared to carry. This makes the tariff simpler and therefore of more service to the shipper. The early examples of classification which have been referred to show that it was appreciated, though in a crude way, that it was unfair to charge all articles alike. The classification has also to see in its groupings that the groupings are relatively reasonable.

15. *How classifications are built.*—While in the early days, when hauls were short and there was but little interchange of traffic, the confusion arising from diversities of classification was not so serious in its effects, but when, as in the United States, through consolidation of existing lines and additional construction, the lines of railway reached steadily into the interior, enabling longer hauls to be made, and interchange of traffic between railways became necessary, it often happened that different portions of the same railway were subject to different classifications. The effect of this may be seen in an extreme form in the situation in which the Wabash Railway found itself in 1883. In that year it had in effect the following classifications:

	No. of Classes in Classification
Middle and Western States	6
Southern Railway & Steamship	18
Mississippi Valley	5
Revised Western	9
Trunk Line, Eastbound	13
Trunk Line, Westbound	5
Texas	8
Pacific Coast, Eastbound	9
Pacific Coast, Westbound	Rates quoted for each article

It requires no elaboration to conclude that the shipper, unless he had especial facilities for keeping track of the situation, would be utterly at sea.

16. *Classifications of the United States.*—By 1887 there had come into existence three leading Classifications, the Official, the Southern, and the Western. The Official covers traffic in the territory north of the Ohio and Potomac Rivers, including New England, and east of a line from Chicago to St. Louis and the mouth of the Ohio River. This is the most dense traffic territory in the United States. The Southern applies east of the Mississippi River and south of Official territory. The Western Classification applies west of Lake Michigan, the Mississippi River, and Official Territory. Occasionally there are overlappings of these classifications; for example, in the case of a shipment to or from a point near the boundary of the classification territory one classification may govern through. Thus, St. Louis uses the Official Classification eastbound, the Western westbound, and the Southern southbound.

While there has been a movement for uniform classification in the United States, the diversity of trade and traffic conditions has so far prevented the success of this movement. Consequently, there is no necessary uniformity as between the classifications, either in respect of rating or description. Under Official Classification No. 39 there are under the item "Clothing," eight descriptions, the final one being "Clothing in bales or boxes, not otherwise specified, first class, L.C.L." In Western Classification No. 50 there are eleven descriptions, but while Clothing, boxed, N.O.S., is carried first class L.C.L., in bales, N.O.S., it is not taken. The Official Classification has six numbered classes and two "rules." These are in effect additional classes. Rule No. 25 in-

cludes articles rated at 15 per cent less than second class, and Rule No. 26 includes those rated at 20 per cent less than third class. The Southern Classification has six numbered and seven lettered classes. The Western contains ten classes, five numbered and five lettered.

17. *Canadian classification.*—In the earlier days the same chaotic conditions in regard to classification existed in Canada as in the United States. The various small independently operated roads had each its individual classification, there being no necessary common base. In 1874, the class rates applying from station to station on the Grand Trunk were governed by the "Grand Trunk Railway Classification of Freight." The merchandise classes, which were four in number, scaled as follows:

1st class	....	200%	of 4th
2nd "	....	167%	" "
3rd "	....	133%	" "
4th "	....	100%	" "

In addition, there were four special columns governing carload rates on flour per barrel, grain per one hundred pounds, lumber per car, and live stock per car. Various other items were scheduled as "same rates as flour," "same rates as lumber," and so on. There were also various ratings which were multiples of the four merchandise class ratings.

The Canadian Classification came into existence in 1884. It had at first nine classes; it has now ten. But in effect it may be said to have sixteen, for the multiples of the first class rating must also be noted. There are the ratings 1½; D-1 (double first class); 2½-1 (two and one-half times first class); 3-1; 3½; 4-1. The Classification is built up on the fifth class, fourth being 25 per cent, third 50 per cent, second 75 per cent, and first 100 per cent higher than fifth. In the first five classes the

railway loads and unloads, except where the piece or package weighs two thousand pounds or over; in the sixth to tenth classes it does not.

There is a subdivision of Canadian Classification territory, known as Canadian Freight Association territory; this includes Canadian points east of but not including Port Arthur, and east of and including Sault Ste. Marie, Sarnia, and Windsor. Westbound from this territory to points in Oregon, Washington, and North Pacific Coast terminals in the United States, the movement is subject to the Canadian Classification.

18. *International traffic.*—The international trade movements between Canada and the United States and some movements in Canada are subject to the classifications of the United States. In a summary way the leading examples are as follows:

Official Classification applies—

(a) From C. P. R. stations west of Montreal to Montreal for export.

(b) Canadian Freight Association territory to and from Illinois, Iowa, Missouri.

(c) Canadian Freight Association territory to and from Louisiana, Kentucky, Tennessee, Alabama, Florida.

Southern Classification applies—

Canadian Freight Association territory to and from Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

Western Classification applies—

(a) Canadian Freight Association territory to and from British Columbia.

(b) Same territory to and from Arkansas and Oklahoma.

(c) Same territory to and from Rocky Mountain States and west to the Pacific.

(d) California, Nevada and Utah to Manitoba.

The Railway Act recognizes international traffic as a complicating factor, for it provides that subject to any order or direction of the Canadian Railway Commission any freight classification in use in the United States may be used in the traffic to and from the United States.

19. *Expansion of Canadian classification.* — The Canadian Classification has steadily increased the number of items as business has expanded. At first, there were simple, broad groups. There has been a progressive differentiation of ratings. This is shown in the comparative summary of ratings which follows:

Year	*L.C.L.*	*C.L.*	*Any Quantity*
1884	1,284	622	459
1913	3,742	2,347	922

On account of the variety of articles covered by the classification, it would be impossible without quoting the complete classification to give a fully illustrative list. For the purpose, however, of illustrating the way in which the grouping is arranged, the following examples may be quoted (see also specimen page opposite):

Class 1. Dry goods, clothing.
" 2. Cotton piece goods.
" 3. Apples; fish, salted, dried or smoked.
" 4. Lumber, cement, building material.
" 5. Iron pipe, pig iron, horseshoe nails, green coffee, paints, etc.
" 6. Machinery, agricultural implements, etc.
" 7. Railway equipment.
" 8. Flour, grain, and coarser grain products, potatoes, and vegetables.

Twenty-five per cent. over and above the rates herein specified shall be charged for the carriage of all articles shown in this Classification as to be carried at Owner's Risk of Weather, Breakage, etc., as the case may be, if the same are required by shipper to be carried at Carrier's Risk (see Rule 7).

Index Nos.	Page	Item	Classification No. 15 Reads:— C	L.C.L.	C.L.	Date Effective	Change to Read:— C	L.C.L.	C.L.
			Chemicals, Drugs and Medicines— Acids (See Notes):			August 15th, 1911.	Chemicals, Drugs and Medicines— Acids (See Notes):		
1	16	26	Acetic:				Acetic:		
			In demijohns, all covered with wicker, O.R.B.	D-1			In demijohns all covered with wicker, O.R.B.	D-1	
							In demijohns, cork and canvas covered, O.R.B.	D-1	
			In demijohns covered with wicker and packed with straw in baskets, O.R.B.	1½			In demijohns covered with wicker and packed with straw in baskets, O.R.B.	1½	
			In demijohns, boxed, O.R.B.	1	3		In demijohns, boxed, O.R.B.	1	3
			In barrels	3	5		In barrels	3	5
2	19	3	Cigarettes and Cigars—				Cigarettes and Cigars—		
			In cases securely strapped, or with iron straps or clamps on the ends	1			In cases securely strapped with wire or band iron; or in cases fastened with iron or steel key clamps, and boards forming top, bottom and sides stapled together on the inside, and so stated by shipper on bill of lading	1	
			In cases, not strapped as above	D-1			In cases, not fastened as above	D-1	
3	20	27	Crates, Empty, prepaid—				Crates, Empty, prepaid—		
			L.C.L.	D-1	10		S.U., C.L. minimum 20,000 lbs.	D-1	10
			C.L., minimum 20,000 lbs.						
			D				D		
4	21	50	Detonators.—Subject to Rule 10.				Eliminate item 50, page 21.—See item 4, page 2 of this Supplement.		
			Dry Goods—				Dry Goods—		
5	22	5	Bagging and Bags, N.O.S.:				Bags and Bagging, N.O.S.:		
			In bales	3	5		In bundles or bales	3	5
			Cloth:				Cloth:		
6	22	13	Brattice—Same as Oil Cloth.				Brattice:		
							13 feet long and over	1	
							Under 13 feet long:		
							In bales or rolls	3	5
			E				E		
7	25	8	Equipment, Roadmaking—				Equipment, Roadmaking—		
			Consisting of carts, dump cars, dump wagons, engines and boilers, graders, plows, road machines, road rollers, rock crushers, scrapers, stone-spreading wagons, tile moulds and wheelbarrows, in mixed carloads		6		Consisting of carts, dump cars, dump wagons, engines and boilers, graders, plows, road machines, road rollers, rock crushers, scrapers, stone-spreading wagons, street-sprinkling wagons, street sweepers, tile moulds and wheelbarrows, in mixed carloads		6
			F				F		
			Fibre—				†Eliminate items 7, 8 and 9, page 26. (See items 15–20, incl., page 64 of Classification.)		
			Wood:						
8	26	7	Chemical	3	5				
9	26	8	Dry, in bales, C.L. minimum 20,000 lbs.	2	5				
10	26	9							
			Fireworks.—Subject to Rule 10.				Eliminate items 33 and 34, page 26. (See items 5–8, incl., page 2 of this Supplement.)		
11	26	33	Fire Crackers	1					
12	26	34	N.O.S.	D-1					

Specimen Page from Canadian Freight Classification.

Class 9. Live stock.
" 10. Lumber and forest products, coal, rough stone, sand, lime, hay, and straw.

As examples of the supplementary classes the following may be quoted:

4—1. Aeroplanes, wicker baskets not nested.
3½—1. Canoes, three or more crated together.
3—1. Aquariums, boxed, baseball bats in boxes.
2½—1. Cutters, single or crated, over 34 inches high and less than 72 inches long, actual weight.
D—1. Binders, s.u., honey.
1½. Strawberry baskets, nested; perfumery in cases.

20. *Quantity differences.*—The Canadian Classification, in common with other classifications, recognizes a difference in quantity as justifying a difference in rating. In England it has been recognized that in striking a rate a railway may recognize that the commodity moves in large quantities. But in Canada, as in the United States, the carload is taken as the highest unit of quantity. The man who moves thirty carloads is not to receive a more favorable treatment than the man who moves one carload. In turning at random the pages of the Canadian Classification it will be found that cotton piece goods are rated 2 L.C.L., 4 C.L., or, to take another example, canned goods are 3 L.C.L., 5 C.L.

The L.C.L. rating is for one hundred pounds or upwards. In the case of "smalls," or shipments under one hundred pounds, no matter what the class might otherwise be, the charge is that for one hundred pounds first class, with a minimum charge of 35 cents. The railways take the position that on account of the bookkeeping and handling costs incident to such small shipments a charge

for one hundred pounds at the class rating to which it belongs would not be adequate.

In order to obtain the advantage of a car lot rating it is not necessary that one should load up to the full carrying capacity of the car. But it is necessary to furnish a minimum weight.

The position taken by the railways in regard to minimum weights is put succinctly in a statement made by the Chairman of the Canadian Freight Association in a case before the board, i. e., the Canadian Railway Commission:

> All articles are provided with a less-than-carload rating, but only those which are generally and to some extent forwarded in straight carload quantities are given the carload rating. . . . In order to entitle a shipper to the lower carload rating when it is provided in the classification, the rules require that a full straight carload, subject to certain minimum weights which are designed to produce adequate per car revenue, be forwarded by one shipper from one station on one day to one consignee and destination. . . .
>
> Where the character of the freight, size of the package, method of packing, weight of the goods, strength or fragility, vary so greatly, it is impossible to fix by rule a minimum weight which will in all cases exactly correspond with (and not in some cases exceed) the actual quantity which can conveniently be put into a car. It is impracticable by rule to confer the benefit of the carload rate without the use of a minimum weight. In the case of heavy coarse freight, the shipping public find no difficulty in loading up to and even in excess of the minimum weight. There are no commercial transactions which interfere with this being complied with. In the case of light bulky freight, the weight carrying capacity of the car is disregarded, and the loading capacity generally determines the minimum weight, but always subject to its application resulting in a fair per car revenue. This is essential in order to prevent the necessity

of hauling a lightly loaded car and to obtain economy in the use of equipment and yard facilities. A less-than-carload consignment is charged for its actual weight at the higher less-than-carload rate, unless the total charge exceeds the charge based upon the carload minimum weight and carload rate, in which event the lower charge governs. At no time does a charge on a less-than-carload lot exceed the charge for a carload of the same class.

The classification provides that, unless otherwise specifically provided for in the classification, the minimum weight in box cars not over 36 feet 6 inches in length is to be as follows, actual weight to be charged for when in excess of the minimum—

1st, 2nd and 3rd class..........	20,000	lbs.	per	car
4th, 5th and 6th...............	24,000	"	"	"
7th, 8th and 10th..............	30,000	"	"	"

On specific items in the classification there may be minimum weights differing from those just quoted. To quote a few examples: lumbermen's boats and batteaux have a tenth class rating, with a minimum of 20,000 lbs., while boats N.O.S. (not otherwise specified) have a sixth class rating, with a minimum of 20,000 lbs.; concrete spreading carts with a fourth class rating have a minimum of 14,000 lbs., and charcoal, with a seventh class rating, has a minimum of 24,000 lbs.

21. *Car measurements.*—The box car not over 36 feet 6 inches, inside measurement, 8 feet 6 inches wide and 8 feet high, inside measurement, is taken as the standard box car; but as the car increases in length the Canadian Classification increases the minimum. The same thing is done both by the Official and Western Classifications. In the two former, the increase in the minimum does not increase in regular gradation as the length of the car increases, while in the Western Classification

the rule is followed in the case of light and bulky goods of adding for each foot over 36 feet inside measurement 3 per cent to the minimum.

The question of the increased minimum is not concerned with increased length alone; there is also the question of increased height of the car. While the standard box car is 8 feet high, inside measurement, or 13 feet 6 inches from the rails, special cars, as, for example, furniture and automobile cars, are higher. There is at present before the board a proposition that in the case of light and bulky goods, the cubical capacity of the car should be looked to and a minimum fixed on it, and that for every one hundred cubic feet over twenty-five hundred cubic feet of containing space there should be a percentage addition. The Wisconsin Railway Commission, in dealing with the 3 per cent scale of the Western Classification, has expressed the opinion "it would seem that the cubic capacity of the cars is a better basis for adjusting minima than length alone."

22. *Cost of C.L. and L.C.L. shipments.*—While the placing of a higher rating upon an L.C.L. shipment than on a C.L. shipment is an established practice, there is a question as to whether there are factors so differentiating these two traffic movements that the apparent discrimination is not "unjust." It may be said that the small shipment is a retail transaction while the large is a wholesale one. But the distinction looked for must be more fundamental.

Car lot traffic is relatively much less costly to handle than less than car lot traffic. In the former, the loading per car is relatively heavy, thus materially reducing the proportion of dead weight to the pay weight. Where it is loaded and unloaded by the shippers, as compared with the less than car lot traffic, it involves much less ex-

pense in the way of station, office, and other services. In western Canada, the Canadian Pacific estimates the physical cost of handling L.C.L. traffic from shed door until it is stowed in the car at from 35 cents to $1.00 per ton. The further service in connection with the time it takes to assemble a car must be considered. At Winnipeg or Calgary, for example, cars are spotted every day for certain sections of the railway and for certain places on the railway. The car stands at the shed all day, then goes out in the morning on the way-freight train.

The Wisconsin Commission has estimated that in the State of Wisconsin the average car lot loading is 17 tons, while in the case of less than car lot traffic the average loading per car does not reach 6 tons. It then continues:

> On one of the principal carriers in the Western Classification territory the average terminal cost per cwt. amounts to about 2.3 cents, when the loading amounts to 17 tons per car and to almost 5.8 cents when the loading amounts to 7 tons per car, while the average cost of moving the freight between the stations amounts to about 0.26 mills per cwt. when the car is loaded with 17 tons and to about 0.44 mills per cwt. when it is loaded with 7 tons of freight. On these bases, for a haul of two hundred miles, there is a difference in favor of the carload traffic that amounts to about 7 cents per cwt.

Summing up the matter, it expresses the opinion:

> We feel quite justified in saying that the less than carload traffic is relatively less profitable to the carriers than the carload traffic, and that the higher rates for the former are more than offset by the greater cost of handling it.

The difference as between less than car lot and car lot ratings is justified by differences in cost.

23. *Uniformity in Canada.*—The unsuccessful attempts of the United States to obtain a uniform classification applicable throughout the entire section served

by the railways of that country, is indicative of the advantage both to the shipper and to the railway of uniformity of practice. While in Canada there is one general classification, certain modifications must be recognized which in effect, in certain respects, create two general classifications and one minor classification.

On the White Pass and Yukon route, connecting Skaguay and White Horse, shipments are governed by the Northern Classification. In this classification there are three general ratings, A, B and C, A being the lowest rating. In addition, there are the following multiples of these classes, ½, ¾, 1½, 2, 2½, 3 and 4 times A.

As has been indicated, the Canadian Freight Classification is built up on fifth class. But while in western Canada, outside of the Yukon, the principle of having ten classes is followed, the method of building is different. In western Canada, when the Canadian Pacific began operation, the classification which was adopted was the Joint Northern, which was at that time used in the Dakotas and adjoining United States territory. In this classification, first-class was double fourth. There was no percentage relation as to the intervening classes. Later, when further classes were added, no percentage basis of relation of the classes was adopted; and so, while seemingly uniform, the classification in western Canada is out of line with that in use in eastern Canada.

24. *Mixing privilege.*—In dealing with the question of minimum weights it was for the moment referred to as if straight carloads of a single commodity were alone involved. But in addition to a minimum weight made up of one article alone, there may be a minimum weight arrived at by mixing.

In eastern Canada the arrangement as to mixing may be summarized as follows:

(a) When a number of articles of *the same class* in carloads are tendered on one day by one consignor, destined to one consignee, the quantity being sufficient for a carload, they take the rate per hundred pounds of the class at the highest minimum of any of the articles so carried.

(b) When the articles are of *different classes,* the rate and minimum of the article in the highest class applies.

(c) In a mixed carload of fifth and higher class freight having a minimum of less than 20,000 lbs., a minimum of 20,000 lbs. at the highest class rate applies.

For obvious reasons, there are in dealing with certain commodities, such as petroleum, lubricating oil, gasoline, and live stock, limitations of the general mixing privilege.

The mixing privilege is limited to articles which have a distinctive car lot rating, which means that in the majority of cases less than car lot quantities may be combined to obtain the advantage of car lot rates.

In western Canada, however, the mixing privilege is limited by the adoption of the principle of trade lists. The classification states that "articles under distinctive headings will not be taken in mixed carloads at carload rates." "Distinctive headings" as set out in the classification are, for example, agricultural implements, hardware, groceries, etc. The same provisions apply in the west as do in the east, (a) where the articles are of the same class, (b) where the articles are of different classes.

25. *Effect on shippers and consumers.*—The effect of this is that there is a much wider mixing privilege east of Port Arthur than west of it. In eastern Canada the system redounds to the advantage of the consignee

who cannot take a straight carload of a particular line of goods. In western Canada, the rule existing redounds to the advantage of the man who can take a straight carload of a particular line of goods. The rule as to limitation to distinctive headings applies not only to shipments between points in the west, but also to shipments between points east of Port Arthur and points west thereof and vice versa.

The difference in situation as between the east and the west in this respect may be indicated by a specific example. A mixed carload of hoes, anvils, and cultivators is possible east of Port Arthur. In western Canada, tools and hand farm implements are in the hardware list at fifth class, while the cultivators fall in the agricultural machinery list with a sixth class rating. Consequently, on such a shipment from an Ontario point to a point west of Port Arthur, the sixth class rating would apply on a minimum of 20,000 pounds for the cultivators and the L.C.L. rate would be charged on the tools and hand implements. If, however, the tools and hand implements formed the bulk of the shipment, they would move on a fifth class rating with a minimum of 24,000 pounds, and the other articles would move on an L.C.L. rating.

The effect of this is that in respect of distributive business there really are two classifications.

This situation has grown up as a result of a compromise between divergent trade interests. In the classification of 1893 the mixing privilege was limited by the list principle. Various modifications were subsequently made. By 1897, the general practice established was the same as it is east of Port Arthur today. In 1902, the list principle was adopted generally. In 1904, an attempt was made to obtain the open rule for Canada

generally. Instead, there was worked out the compromise which gives two systems, as has already been indicated.

The compromise was, in the main, attributable to the increasing importance of the jobbing centers of western Canada. They felt that the open mixing system would expand the distributing business of eastern Canada in western Canada, and they took the position that this distributive business was naturally tributary to the western jobbing centers.

The complexities introduced by jobbing businesses and their bearing upon classifications and the mixing privileges thereunder are illustrated by recent developments. The Boards of Trade of Calgary, Moose Jaw, Weyburn, Lethbridge, Saskatoon, and Regina desire a further modification of the rule as to mixing as it now applies west of Port Arthur. They point out that jobbing centers are now established at central points in the Provinces of Manitoba, Saskatchewan, and Alberta, and contend that reasonable protection should be given to these centers to do the business naturally tributary to such points. At present, shippers of small lots may combine their shipments and secure carload rates on what would otherwise be carried at broken lot rates. In the case of groceries, mixtures are permitted on over 300 articles running from alum to washtubs. This, it is claimed, is unfair to the western wholesale merchants. It is admitted that there may have been some justification at an earlier date for maintaining carload rates to retailers. It is contended that now, however, there is "no further necessity for violating the principle of giving to the purchaser of a carload all the protection that the Railway Classification and tariffs intended he should have. At present it is possible for the shipper of one

package to secure as low a rate as the shipper of any number of carloads." It is, therefore, contended that the following rearrangements should be made: carload rates should be confined to carload quantities of one commodity or of commodities of an analogous character; that the minimum weight for each class of commodity should reasonably approximate the carrying or cubical capacity of a standard car with due regard for the marketing conditions for the articles in question; that the present basis of trade lists should be abolished and carload rates applied only on carload quantities of one commodity, or one or more commodities of an analogous character.

As will be seen in dealing with the question of rates, the matter of distributive business and the settlement of distributive areas is a question of balancing. Each jobbing center, while contending for the geographical advantage of its situation, is chary in defining the limits of its sphere of influence. And thus while merchants of the west are contending for a rearrangement of the mixing rule which will give them the longest possible haul in carloads, and a distributive business out on the short hauls in less than car lots, points such as Vancouver, Fort William, and Montreal are opposed to the further modification which has been outlined. Montreal, for example, desires that the open rule should apply generally throughout Canada.

26. *Factors affecting classification.*—Classification, as Commissioner Clark, now Chairman of the Interstate Commerce Commission in the United States, has aptly said:

> Is not an exact science nor may the rating of a particular article be determined alone by the yardstick, the scales and the dollar. The volume and desirability of the traffic, the hazard

of carriage, and the probability of misrepresentation of the article are large factors of prime importance in classification. At best it is but a grouping. . . .

Consideration of the earlier examples of classification, to which reference has been made, indicates that at least three determining factors were considered — space, weight, and value. It was considered that where an article packed solidly into a comparatively small space it was proper to make a lower charge than when the same weight took up a much larger space. And there was also, in a somewhat crude way, an attempt to take into consideration the basis of value or ability to pay. To-day, while there are many refinements of classification, these three factors are still of importance.

While the scope of the classification has become more inclusive as business has expanded, and while the ratings have at the same time become more differentiated, it is impossible to have a class for each article. Consequently, the class groupings, while intended to embrace analogous articles, do not embrace articles necessarily identical in point of value, cost of carriage, or other factors.

27. *Value of the article.*—The value of the article is recognized as an important factor. From the standpoint of cost of service, it does not appear justifiable to class gloves, whalebone, thread, and umbrellas in first L.C.L., while common brick, concrete building blocks, and coal are classed fourth L.C.L. When the C.L. ratings are considered it will be found that the first group of commodities extracted from the dry goods list have an any-quantity rating, while common brick, stone, building blocks, and coal have a tenth class rating C.L.

If, however, an attempt were made to arrange the ratings on the basis of the cost of service, assuming that this could be accurately established, the result would be

that the low grade commodities which are placed in tenth class would be able to stand only a short haul movement. Under these circumstances, such commodities would be locally monopolized with a resultant disadvantage to the consumer. As a result of this, value is recognized as a factor and ability to pay places certain articles in the first class and others in the tenth.

In so arranging, cognizance is taken of the fact whether the articles are in the rough, partly finished or finished state. Millstones in the rough are classed L.C.L. third, C.L. fifth; when finished they are classed second and fourth. And while dimension or building stone in the rough, sawn or dressed, not carved, is fourth and tenth, it is first and fifth when carved or lettered, crated or boxed. Or, again, difference in quality is recognized. Thus, while brick, common, fire, vitrified and scoria blocks are rated fourth and tenth, enameled and glazed brick is third and fifth.

In dealing with the classification of blaugas, the board found that the ratings of second and fourth were reasonable, this being based on a consideration of the article and of its ability to pay as compared with the lower ability to pay of the articles classed third and fifth, which were the ratings asked for. So, also, where a carload rating was asked for on cigars, which have an any-quantity rating of first class, it was held that as cigars were luxuries the any-quantity rating was not unfair. A similar position was taken in dealing with an application to reduce the rating of cutglass from double first to first class.

In using value as a basis, there is considered not only the ability to pay, but also the market value of the article. That is to say, where an article has a high market price, the higher rating has but a slight percentage effect upon the market demand. But in the case of articles of wide

demand and consequently lower market price the higher rating would add such a percentage to the market price that the demand would be curtailed. Consequently, as a matter of self-interest, the ratings must, within certain broad limits, recognize ability to pay as a factor.

28. *Bulk and weight.*—As the railways in transporting freight are selling car space, what can be packed in a given space is important. There must be considered whether the articles are K.D. (knocked down) or S.U. (set up). Sheaf carriers, S.U., are D-1, while K.D. they are second class, these ratings being for L.C.L.; while lumber wagons are first class S.U. and second class K.D. Another consideration is whether the articles are loose or in bulk, including in this the consideration whether they are crated in boxes or otherwise packed. A variety of ratings will be found based on the difference in packing. Thus in the tin and tinware list the following will be found:

	L.C.L.	*C.L.*
Tinware, N.O.S.:		
Loose, O.R.D.	D-1	6
Not nested, in crates, boxed or barrels	1	5
Nested, in crates, boxes or barrels	2	5
Nested solid, in crates, boxes or barrels	3	5

Other considerations falling under the heading of bulk and weight are whether the commodities are in L.C.L. or in C.L. shipments, and questions of minimum weights. Lamp chimneys have a rating of second and fifth, with a minimum of 20,000 pounds. It may be noted that while the normal fifth class minimum is 24,000 pounds, these goods will, on account of their being light and bulky, normally have difficulty in loading up to the 20,000 minimum.

29. *Risk attached to carriage.*—A railway is an insurer, and so the risk attaching to the carriage of the

goods is considered. Scattered throughout the classification will be found the following notations:

O.R.B.	= Owner's risk of breakage.	O.R.F.	= Owner's risk of fire.
O.R.C.	= " " chafing.	O.R.L.	= " " loss.
O.R.D.	= " " damage.	O.R.Lkge.	= " " leakage.
O.R.Det.	= " " deterioration.	O.R.S.	= " " sifting.
	O.R.W. = Owner's risk of weather.		

When these owner's risk notations appear in the classification, the railway is relieved from the risks necessarily incidental to the transportation of the article so noted. But it is not relieved from liability for any loss or damage which may result from any negligence or omission of the railway, its agents, or employees. If a shipper does not wish to ship at "owner's risk," then the articles proffered by him will be carried subject to the terms of the Standard Bill of Lading, but subject to the addition of twenty-five per cent to the rates applying when the goods are carried at "owner's risk."

Particular examples of the classification considering the risk attending transportation are plentiful. Green vegetables O.R.Det., in baskets, bags or crates, are first class L.C.L., while evaporated or desiccated vegetables are third class L.C.L. in bags, boxes, or barrels. The rating is affected by the question of whether the commodity is liquid or dry. Liquid shellac in tins, boxed, is first and third, while dry shellac is second and fourth. In the rating of acids, there has to be taken into consideration not only the risk of handling not only as to the goods themselves, but also as to other property. Special care must be taken in handling them.

30. *Facilities and equipment required.*—While the nature of the facilities required has an important bearing on the rate it also affects the conditions attaching to the classification rating. Apples and potatoes must be prepaid in winter.

In arranging classification, the matter of tonnage movement is important. While low grade commodities must have a low rating in order to move at all, the fact that a commodity moves in large bulk facilitates the low rating arrangement. The question of competition of markets is also a factor. So, also, is the competitive effect exercised by alternate water routes.

In dealing with classification, the question of analogy plays an important part. A change in the rating of an article will create a demand for a change in a complementary commodity. While aluminum wire and copper wire are distinct commodities, they are both complementary and competing; and so we find them both with a rating of second and fourth. The lists of the classification have grown up out of the varied needs of business, and to disregard these is to upset business. In the grocery list we find not only flour, sugar, jams, and jellies, but we also find glue and tobacco. In 1911, the Canadian Freight Association, acting for the Canadian railways, proposed a rearrangement of the ratings on tobacco. The most important part of this rearrangement was the substitution of a fourth class carload rating for the existing fifth class rating. In evidence, it was shown that 84 per cent of the output of plug tobacco of the Dominion Tobacco Company and over 60 per cent of its cut tobacco was disposed of to the grocery trade. The Ontario Wholesale Grocers' Guild testified that from 80 per cent to 85 per cent of the tobacco sold was handled by grocers, and that the tobacco business was about 10 per cent of the total trade of the grocers. The result of the proposed change would have been a dislocation of business, since tobacco and groceries would no longer have been able to mix on a fifth class rating. The board in ruling on the matter said: "In view of the dislocation

which the proposed increased ratings would cause, it would be necessary for the railways to make out a strong affirmative case. This they have not done . . . and their application should be dismissed."

It is impossible, without going into tedious detail, to enumerate all the factors going into the determination of classification ratings. As a fairly compendious summary there may be quoted the following extract from the Annual Report of the Interstate Commerce Commission for 1897:

(there is considered) whether commodities are crude, rough or finished: liquid or dry; knocked down or set up; loose or in bulk; nested or in boxes or otherwise packed; of vegetables whether green or dry, desiccated or evaporated; the market value and shippers' representations as to their character; the cost of service, length and duration of haul; the season and manner of shipment; the space occupied and weight; whether in carload or less than carload lots; the value of annual shipments to be calculated on; the sort of car required, whether flat, gondola, box, tank, or special; whether ice or heat must be furnished; the speed of trains necessary for perishable or otherwise rush goods; the risk of handling, either to the goods themselves or other property; the weights, actual and estimated; the carriers' risk or owners' release from damage or loss.

31. *Classification in operation in Canada.*—The Railway Act provides that the railway shall keep on file at its stations where freight is received and delivered a copy of the freight classification, or classifications, in force upon the railway, for inspection during business hours. The board is given wide powers in dealing with the classification. These are set forth in Section 321 of the Railway Act, which provides:

The tariff of tolls for freight traffic shall be subject to and governed by that classification which the Board may prescribe

or authorize, and the Board shall endeavor to have such classification uniform throughout Canada, as far as may be, having due regard to all proper interests. The Board may make any special regulations, terms and conditions in connection with such classification, and as to the carriage of any particular commodity or commodities mentioned therein, as to it may seem expedient. The company may from time to time, with the approval of the Board, and shall, when so directed by the Board, place any goods specified by the Board in any stated class, or remove them from any one class to any other, higher or lower class. Provided that no goods shall be removed from a lower to a higher class until such notice as the Board determines has been given in the *Canada Gazette*.

The classification is revised from time to time. It is issued at irregular intervals. The issues down to date have been as follows:

No. 1.—Jan. 1, 1884.	No. 9.—June 1, 1893.
No. 2.—June 1, 1884.	No. 10.—Jan. 1, 1896.
No. 3.—April 1, 1885.	No. 10a.—Sept. 1, 1897.
No. 4.—May 10, 1886.	No. 11.—Jan. 1, 1900.
No. 5.—May 1, 1888.	No. 12.—May 1, 1903.
No. 6.—April 15, 1889.	No. 13.—Sept. 1, 1907.
No. 7.—Feb. 10, 1890.	No. 14.—Jan. 1, 1909.
No. 8.—Oct. 1, 1891.	No. 15.—Nov. 15, 1910.

No. 16.—March 1, 1913.

Between issues supplements are issued to take care of changed ratings.

While the Board of Railway Commissioners for Canada, popularly spoken of as the Railway Commission, has power to initiate changes in classification, it normally does not act of its own initiative, but on complaint. The initiation of the classification or of a supplement thereto is in the hands of the Canadian Freight

Association, acting for the railways, and more particularly the Advisory Committee thereof.

As has been seen, the increased ratings have to be published in the *Canada Gazette.* The board by its order of January 18, 1909, provided that in filing changes of classification this material should be submitted in proofsheets, giving a list of the articles not previously provided for which it is proposed to add to the classification and giving the ratings for these articles. Further, it was directed that information should be given as to the proposed advances, reductions, or other changes in rules, ratings, or minimum weights. In making application as to changes, it is required that the reasons should be set out. As an example of reasons given, the following dealing with "Lath, iron or steel, in bundles, crates or boxes," may be referred to:

> This material has several uses, chief of which is for plastered walls. In this it takes the place of expanded metal or wooden lath. Coming in competition with expanded metal of about the same value and transported under the same general conditions, there should be no difference in the ratings, and 3d class L.C.L. seems reasonable and should, we think, be permitted.

The Canadian Freight Association is required to submit proof copies of proposed changes which may be forwarded to interested parties for their consideration. For example, in connection with the consideration of Supplement No. 2 to Classification 16, proof copies were sent in addition to the Canadian Manufacturers' Association, to the Ontario Grocers' Guild, and to eighteen other trade bodies, so that their representations as to the effects of the proposed changes could be considered.

Instead of dealing with the classification after it is made, as does the Interstate Commerce Commission, the board may be said to participate in its making. After

the representations are received from the various trade bodies it is usual to arrange a conference between the railways and the representatives of the trade organizations. At this conference the Chief Traffic Officer of the board is also present. The matters at issue are discussed and an attempt is made to arrive at a conclusion. The Chief Traffic Officer reports to the board, which deals with the unsettled questions, if there are any. When this has been done an order of the board is issued, authorizing the coming into effect of the classification.

32. *False classification and complaints.*—False classification of freight, either by a railway or its employees, or by a consignor or consignee, with a view either to give or to obtain carriage of goods at lower than the rates legally in force, is punishable for each offense by a penalty not exceeding $1,000 and not less than $100.

From time to time an individual may complain of the classification as fixed. For example, a manufacturer of explosives desired paraffin wax to be given a rating under chemicals. He made application to the Advisory Committee of the Canadian Freight Association, which did not see fit to accede to his request. By application to the board the matter was set down for hearing and a direction was given that the revised rating should be granted.

Since classification is tied up with rate-making, and since the changing of an article from one class to another is equivalent to a change in the rate, it is essential that any organization regulating rates should have an efficient control over classification as well.

CHAPTER III

FREIGHT RATES

33. *Importance of freight traffic.*—In the period between October 1, 1912, and September 30, 1913, there were filed with the Board of Railway Commissioners for Canada, 81,076 tariffs. In the fiscal year ending March 31, 1913, the tariffs filed totaled 76,058. Of these, 49,200 were freight tariffs. That is to say, 164 freight tariffs were filed every working day. These tariffs are concerned not only with traffic lying wholly within Canada, but also with the transit business in which both Canada and the United States participate. The tariffs vary in size from a transcontinental tariff, with its 187 pages, to a supplement of a single sheet.

In a new country such as Canada, where a sparse population is spread over a large territory, the receipts from freight traffic largely outrank those from passenger business. If the mails, express, baggage and parlor car receipts, which total about 4 per cent of the gross earnings, are included in the passenger total, the following tabular summary is available:

	1910 *Per Cent*	*1911* *Per Cent*	*1912* *Per Cent*
Passenger service	30.44	30.90	29.65
Freight	67.54	67.07	68.35
Station and train privileges, etc.	.39	.44	.49
Telegraph, rents and other sources	1.63	1.59	1.51

That is to say, in Canada, for every dollar earned from passenger business $2.60 were earned from freight business.

During the period from 1902 to 1908, the Canadian

Pacific added 14 freight cars per day, 1 passenger car every day, and 1 locomotive every three days. In the period between 1909 and 1912, the railways of Canada have added 512 locomotives, 926 passenger cars, and 30,315 freight cars to their equipment. The extent to which provision is being made for expanding business is shown in the orders for equipment placed in the years 1911 and 1912:

	Freight Cars		*Passenger Cars*		*Locomotives*	
	1911	*1912*	*1911*	*1912*	*1911*	*1912*
Canadian Pacific.........	11,992	28,503	221	422	124	496
Canadian Northern.......	3,457	2,556	72	149	40	122
Grand Trunk............	4,000	3,850	75	67	112	140

The freight cars ordered in 1912 by these three railways were equal to an addition of 21 per cent to the freight-car equipment then in use on all Canadian railways.

In Canada, in the period of 1910 to 1912, the gross earnings from freight increased by 27 per cent. The tonnage and mileage service performed afford a measure of what the railways are doing. For a period of years the following table puts the matter in a summary manner:

	1907	*1908*	*1909*	*1910*	*1911*	*1912*
Average haul, miles.........	183	206	197	211	200	218
Average tons per train......	260	278	278	311	305	325
Average cars per train......	16.92	16.04	16.37	18.15	18.03	18.19
Average tons per car........	15.37	17.33	16.98	17.13	16.91	17.87

The increase in the average haul is an index of the rapidly expanding railway network of western Canada. In the period in question, there is an increase in the average loading per car. But taking the average car at thirty tons capacity, it will be noted that on the figures of 1912, 41 per cent of the carrying space was on the average empty.

34. *Railway rates of universal interest.*—The fundamental part transportation plays in all countries and the great importance of freight traffic in a new country, has

caused much discussion as to the proper basis of rates, and especially of freight rates. While certain phases of competition have effect in railway transportation, there are also limitations of competition. In a sense, this is becoming more and more true of all modern industry, and the easy-going ideas as to the pervasive effects of competition which developed at a time when industry was not organized on a large scale and large investments of capital were unnecessary, are now being shocked into readjustment.

In the case of the railway, its service is as fundamental in modern industrial life as electric light and water services and street cars are in the routine of the city dweller. Any interference with the efficiency of the transportation system is of far-reaching consequence. The large mass of the people are in one way or another affected by the transport of commodities on the railway. Few, nowadays, lead the hermit life. Not only are we dependent on the railway in the normal distributive process, but we are greatly dependent on it in our maladjusted distributive organization which is characterized by wastes of transportation. When we ship Eastern Townships butter to Vancouver Island and New Zealand butter to Ottawa, New Zealand poultry and mutton to the interior valleys of British Columbia, and eggs from Ontario to Regina, it is but little wonder that the freight rate elicits active discussion.

35. *Competition.*—Not only is the rate a matter of wide interest, the nature of the railway transportation business is also important. In a letter which Leland Stanford wrote to the San Francisco Chamber of Commerce in 1873, he said: "Whenever undue profits upon an investment in railroads, or any other corporate property accrue, other capital will always be found to enter

into the same business to share such profits, and by competition to reduce them to a legitimate standard." On the other hand, J. J. Hill, in his evidence before the Interstate Commerce Commission in 1902, said: "Competition does not lower rates; on the contrary, it advances them. In the North West, where for twenty years the Northern Pacific and the Great Northern have been at peace, where one road has agreed with the other on rates and maintained the agreement, rates are lower than in any other part of the country."

Railways are not operating in a frictionless economic ether, as Stanford naïvely suggested. They are forced by their nature to come into some kind of relationship. A dry goods merchant, dealing with his customers, is not dependent upon the other merchants concerned in local trade. He may do more than a local trade without demanding any co-operation with other merchants. It is true that the pursuit of his trade demands a co-operation with the wholesale merchant. But within the limits of his retail business his relationship to other merchants is not one of co-operation, but of competition.

36. *Compared with mercantile and manufacturing business.*—A merchant must, of course, be prepared, within limits, to supply the goods demanded by his customers, and when they are demanded. A railway is engaged in selling services, and readiness to serve is therefore essential to its business. A merchant, while he must be ready to serve, has the opportunity of adjusting his stock to seasonal demands, and in so doing he has the opportunity to turn his capital over. A manufacturer may conceivably accumulate a surplus stock of goods to meet a later demand. It is patent that a railway cannot create service in advance of demand. It has to be prepared to provide service when

and how demanded. This readiness to serve is represented in locomotive and freight car units.

A striking example of this is afforded by the western grain movement. The grain begins to move about two and a half months before the close of navigation on the Great Lakes, and every effort has to be made to get the grain forward to Fort William and Port Arthur. Consequently the railways have to be ready to meet a peak load in a short period of time. On September 29, 1913, the Canadian Pacific handled in and out of Winnipeg 5,014 cars of grain. On the same date thirty-eight trains of grain were dispatched from Winnipeg in ten hours, or an average of one train every sixteen minutes. In order to meet this peak load, the railway has to carry sufficient cars to meet not only the grain peak load, but also carry on the ordinary business of the railway. Were it possible to equalize the grain movement over the year, it is obvious that a lesser number of cars would be needed to move the total business.

37. *Evils of parallel lines.*—As has been indicated, attempts have been made to trace an analogy, if not an identity, between railway transportation and other business. The analogy, however, is imperfect. On account of the large expenditure of fixed capital necessary, the construction of parallel railways is expensive. Normally it is better, both from the standpoint of the public using the railway and from the standpoint of the public investing in railways, not to have reduplication of closely paralleling railways. If there is paralleling, the chances are that there will not be sufficient local business for the two lines. If the parallel lines connect two important commercial centers, they may each obtain a sufficient share of the trade. But as regards local traffic there may be insufficient to give an adequate division.

Two parallel railway systems competing for an insufficient local traffic have all the greater reason to join in some arrangement with reference to the division of the traffic. In the realignment of the railway system of eastern Ontario, which is being brought about by the construction of the Canadian Northern lines and the Canadian Pacific line—the Campbellford, Lake Ontario and Western—there is in the towns along Lake Ontario paralleling of the lines of the Grand Trunk and reduplication of its facilities. These new lines are being built primarily because of the through business. As to the local business, while there will be competition of service, it is not to be expected that there will be competition in rates, except in so far as the short-line mileage of one railway will control the maximum charges of the other railways between given points.

Even if we have two systems which do compete, the competition is different from ordinary competition. To have competition operating in the same way as in ordinary business, there would have to be a very narrow extent of territory separating the tracks of the competing railways.

If, however, a railway which has a monopoly of the local business charges exorbitant rates, thereby obtaining profits greater than normal, it is possible that potential competition may redress this. But certain qualifications must be borne in mind. The local business adequate for one line may, even with the additional business a second line might develop, be inadequate to give a profit on the investment of two lines. Then, again, if a second line is built, the capital once invested must depend for its return on the conditions affecting its traffic. It cannot, of course, be moved if the profits are inadequate. If a railway is obtaining profits in excess

of the normal rate, then, subject to what has been said, free capital may in time be attracted. This takes time, although it is not impossible.

38. *The West Shore Case.*—The Hudson River Railroad was known to be obtaining a large return on the investment. The West Shore, which parallels the Hudson River Railroad on the west side of the river, was the outcome of this. That paralleling does not of necessity ensure efficient competition, and a permanent advantage to the public is illustrated in this. The West Shore was built primarily as a blackmailing system. For some time it cut the Buffalo-New York rates in two. The nominal stock of the railway represented nothing. It was built on the bonds. The Vanderbilt system was forced in self-protection to lease the road. It is true that the public gained a competition in service; but the public, in order to obtain this, was paying at the time on an unnecessary addition to fixed capital.

In Canada, especially in western Canada, parallel lines are being extensively built. It is unfortunate that this is being done, because there is such an extent of territory still needing railways. As the money which goes into these railways for the most part represents, on the newer lines, at least, borrowed money, it simply means that the construction of every additional unnecessary parallel mile lessens to that extent the ability to raise capital to construct railways in undeveloped country.

39. "*Postage stamp" rates.*—Arguing from the analogy of the postal service, some, as for example, Galt in England and Cowles in the United States, have argued that there should be a flat rate. Cowles, in his "A General Freight and Passenger Port," has put the position thus: "Railway rates should be determined by the *cost,*

and not by the *value*, of the service rendered. Any rate that will pay the cost of the shortest haul of a person, or of a piece of property, within a railway system, will pay the cost of the average haul, and, therefore, the cost of service rate."

It has been recognized by the Interstate Commerce Commission, as well as by the board, that while distance is a factor, it is not the only factor. In the practice of rate-making there is at times a minimizing of distance. At one time, in shipments from Official Classification territory to Pacific Coast points, the practice grew up whereby New York and Chicago had the same class rate to the same destination. This arose out of a competition of markets as between the territory adjacent to New York and the territory adjacent to Chicago. The railways entering into the two cities desired to protect the trade of their respective sections, and finally a compromise was worked out whereby New York and Chicago were "blanketed" on Pacific Coast business.

In shipments from Ontario and Quebec to points in the Canadian North West, the territory between Montreal and such points as Sarnia and Windsor in the southwestern peninsula of Ontario, are "blanketed" on a common rate.

Wellington, in his "Economic Theory of Railway Location," which is noteworthy as the first real attempt to correlate the engineering and the economics of location, puts in its most extreme form the case for the minimizing of the importance of the distance factor:

The sale of transportation, like the sale of any other commodity, is governed by the universal business law of selling whatever is salable as dearly as possible (or at least as dearly as is prudent and wise) regardless of the cost of production. The selling price of no marketable commodity, whether transporta-

tion or houses, or cotton cloth, is fixed by the cost of production, except that if it will not bring a profit on its cost it is no longer produced; and for railways any such attempt would be particularly senseless, for the reason that the cost of any particular sale of transportation may be considered as varying anywhere from zero upwards; depending to a far greater extent than in any other commercial transaction simply upon the amount that can be sold.

The theory of Cowles rests on an exaggeration of the unimportance of distance. While distance may not in a particular case be *the* determining factor, it is *a* factor to be considered. In assuming that the rate that will pay the cost of service of the shortest haul will be the proper rate for all, he is resting upon pure assumption. If application were made of the theory, it would inevitably happen that the long-distance traffic would be unduly bonused at the expense of the short-haul traffic.

Further, if it is contended, as it is by Cowles, that rates should be determined by cost of service and that at the same time distance should be disregarded by applying the postal principle, it follows that distance is not a varying element in the cost of service, and that it must cost no more to haul a car five thousand miles than to haul it five. While the theory might possibly be entertained as a matter of public policy, as a statement of a cost of service basis, it is a patent absurdity.

40. *Distance rates.*—While the "postage stamp" theory disregards distance, the equal mileage theory overemphasizes it. In 1873 there was introduced into the Parliament of Canada a bill to provide that "tolls should be at all times charged equally to all persons and after the same rate per mile for all distances in respect of passengers and traffic." At the same time, the subject was engaging the attention of the legislature of New

York. In both cases it was the competition of goods from further west, which went through on a low-rate basis per mile as compared with the higher-rate basis of the shorter haul, which brought the matter to the front. In Canada, the conditions following the panic of 1873 caused this project to be rather actively discussed in the period from 1873 to 1875.

While the thoroughgoing application of the distance principle has the advantage of supplying a yardstick, there are difficulties attaching to its inflexible application in freight business. A distance rate would have the disadvantage that it would give the preference to commodities possessing large value in small bulk, and it would make a local market for bulky commodities. For example, rough forest products, cement, hides and skins, grain and grain products, sugar beets, brick, stone, sand, lime, etc., could not be carried considerable distances as at present. The higher valued articles would move under the equal mileage rate; the low-valued articles would stand only a short haul.

In England, the Select Committee on Railway Companies Amalgamation, 1872, summarized the disadvantages as follows:

(*a.*) It would prevent railways from lowering rates to meet sea, canal, or shorter railway distance rates, thus lessening advantages of competition.

(*b.*) It would interfere with giving better rates on larger quantities, or on carrying long distances at lower rates. (In respect of quantity, note the difference in Canada between L.C.L. and C.L. In England, train-load quantities may also be considered.)

(*c.*) It would compel the same rate over expensive as over less expensive lines of the company.

41. ***Rates based on capitalization.***—Unless there is in

the first instance a regulation of the issue of the securities entering into the capitalization, there is no assurance that the capitalization as it stands is in its entirety legitimate. Then, again, a railway which has been lavishly assisted by the government, for example, the Canadian Pacific, may be able to keep down its capitalization. Another, like the Grand Trunk, may have been forced at times in default of government assistance to issue its stock at heavy discounts. Under the capitalization plan, is the Grand Trunk to be penalized for its misfortunes? Then, again, if the road with the lighter capitalization and rates fixed accordingly competes with the road with the heavier capitalization and rates fixed accordingly, it would happen that between common points the latter road would have to meet the rates of the former. The further question arises, what is to be considered in striking the rate on capitalization—is it the par, or is it the cash which actually was raised?

The following summary for 1912 will serve to indicate the lack of harmony between the takings per passenger or per ton and the capitalization:

	Average Capitalization Per Mile	*Passenger Mile Earnings Cents*	*Ton Mile Earnings Cents*
Canadian Pacific (exclusive of leased lines)	$ 47,354	1.943	.772
Canadian Northern (Western lines)........	41,743	2.114	.757
Grand Trunk........................	129,909	1.815	.687

42. *Physical valuation as a rate basis.*—Correlated with the question of capitalization as a rate basis is physical valuation, which is attracting so much attention in the United States at present. Commissioner Clements, of the Interstate Commerce Commission, in speaking before the House Committee, said: "I think it is sound justice and law that as a basis for constitutional earnings a fair return on the value of the property means,

generally speaking, a fair return on the investment actu-ally made, originally and subsequently."

Just what the general effect of physical valuation ma be, it is impossible to forecast. As the *American Shippers' Gazette* said:

> There is, however, no telling if the valuation when complete will actually result in dollars and cents benefit to the America consumer, who pays the freight rate whenever he makes a retai purchase. . . . It will all depend on whether American railroad are today overcapitalized.

In the case of the valuation of the New York, New Haven and Hartford, made for the Massachusetts Rail-road Commission, it appeared that the assets exceeded the capitalization. Both in the case of capitalization and physical valuation, there is the further consideration that when the rate valuation is struck and the proper return thereon determined, this simply determines the maximum takings of the railway. It cannot determine the relation of the rates as between themselves because all commodities cannot contribute in the same propor-tion to the upkeep of a railway without seriously incom-moding the movement of low-grade bulky commodities. That is to say, neither of these methods is a final deter-mination of the reasonableness of a particular rate.

43. *Cost of service.*—The theory which has attracted most attention as a determinant of reasonableness is that of cost of service. In modern days, when we find con-struction companies offering to construct a building for cost plus 10 per cent, the question is constantly asked why rates cannot be fixed accordingly. In business, the prices, whether for service or for commodities, must first of all cover all expenses, and thereafter enters the item of profits.

In various railways, an attempt has been made to dis-

tinguish between expenses of passenger and freight business. Certain items may be directly allocated; other items which are not so capable of direct allocation are, in the case of the Louisville and Nashville and the Burlington railways, divided on the basis of the engine mileage for each class of traffic. While this affords a system of distribution of cost which may be of comparative value one year with another, it does not show how cost is actually distributed, because it is based on an assumption.

The Interstate Commerce Commission abandoned in 1894 the attempt to arrive in its accounting system at cost of service. It has more recently, in the matter of soft coal rates to the lakes, taken up the matter of cost distribution once more. It cannot, however, be said that the commission has definitely accepted cost of service as the infallible criterion of reasonableness.

In railway service, there are certain general expenses which must be borne if the railway is to be a railway at all. These charges, in the rough, do not vary with the amount of business done. Then, again, the railway does both passenger and freight business; the facilities of the railway are used by both these types of traffic. The question arises: how are the expenses of creation and maintenance of these facilities to be divided as between these forms of traffic? Then, again, freight may be moving in trainloads, as in the movement of such a staple as wheat; or it may be handled in way-freight trains, which are peddling package freight. The question whether the movement is in carload or in less than carload quantities also, as has been indicated, affects the cost of handling. But the freight rate which is struck must be an inclusive average. The cost of the movement of freight is affected by the question of whether it is through or local. The amount and direction of the

loaded, as compared with the empty, freight-car mileage is also of importance. In Canada in 1912, 22 per cent of the total freight-car mileage represented an empty movement. In the long run, the loaded-car mileage must pay for the empty movement as well.

44. *What is cost of service?*—When we speak of cost of service it must be remembered that it covers a variety of meanings. It may be a primary cost representing the actual cost of movement either of the article moving or of an additional unit of commodity when the traffic is already moving. For example, a certain amount of package freight is moving westward from Fort William and there are empty cars which have to be taken westward. A railway may conceivably desire to attract traffic at low rates to redress the volume of empty mileage, since as the cars are moving any way it has only the question of the additional cost. Every commodity must contribute in some degree to secondary cost. That is to say, it must make such a contribution to all the expenses of the road plus some return of profit as will enable the railway, one commodity with another, to be continued in an efficient condition. This is the most difficult phase of the cost of service theory, for what the commodity can contribute to this secondary, but none the less necessary, cost, depends on its ability to contribute not on any preconceived idea of what it ought to contribute.

An important question as affecting any attempt to determine cost of service is the ratio of constant to variable expenses. Adopting the method of analysis used by W. Z. Ripley,[1] the following summary analysis of total expenditures of the railways of Canada for 1912 may be made:

[1] "Railroad Rates and Regulations," by W. Z. Ripley.

ANALYSIS OF TOTAL EXPENDITURES CANADIAN RAILWAYS
1912

	Per Cent of Operating Expenses			Per Cent of Total Expenses		
	Both	*Constant*	*Variable*	*Both*	*Constant*	*Variable*
Maintenance of way and structures....	20.9	14	6.9	18.8	12.5	6.3
Maintenance of equipment............	19.8	9.9	9.9	17.8	8.9	8.9
Traffic expenses.....	3.5	27.9	27.9	3.1	25.05	25.05
Transportation......	52.4			47		
General expenses....	3.4	3.4	....	3	3	....
	100	55.2	44.7			
Fixed charges............................				10.3	10.3	....
				100	59.75	40.25

Summarizing these computations, we arrive at the result that approximately three-fifths of the total expenditures of the Canadian railways and 55 per cent of their operating expenses are independent of the changes in the volume of traffic. Two-fifths of the total expenses and 45 per cent of the operating expenses vary with changes in the traffic.

The Wisconsin Railroad Commission, whose work in connection with the regulation of rates is extremely valuable, has placed great reliance upon the cost of service principle. Commissioner Erickson, of that commission, in dealing with the question of rate regulation, has said: "The cost of service both in law and in fact appears to be the fundamental basis for rates." And he has also said:

> In order to be able to determine the costs per unit in the railway service under present conditions, it is necessary, first, to separate the expenses between freight and passenger traffic, and second, to separate the outlays for each of these branches of the service between terminal and movement expenses. . . . Upon close examination, it is usually found that when the accounts are picked to pieces, reclassified and reconstructed along proper lines, often 60 per cent of the expenses are found to be

special in each case to the freight and passenger traffic, and that the balance consisting of the fixed or common items, bear so close a relation to certain factors in the business that they can be safely apportioned thereon.

The commissioner allocates fixed or indirect expenses in freight traffic, for example, according to the locomotive, the car, the locomotive-mile, the car-mile, the train, the train-mile, the number of cars handled, the number of tons handled, the tons carried one mile.

It would be interesting, if space permitted, to pursue further the analysis of the methods used by the Wisconsin Commission. Sufficient has been said to indicate the thoroughness with which they have worked the matter out.

But while the Wisconsin Commission thus emphasizes cost of service as fundamental, it recognizes value as a factor as well. Commissioner Erickson, in a paper read before the National Association of Railway Commissioners in November, 1910, said:

> . . . costs . . . (are) the first and most essential element in rate-making. But . . . recognition of value in fixing rates is usually regarded as in line with the best interests of all consumers . . . cheap and bulky articles are, as a rule, not moved at all except at comparatively low rates, and this for the reason that their ability to pay is small. . . . While low-priced articles should be charged comparatively low rates, the rates so levied upon them, under normal conditions, should, as a rule, be high enough to cover their share of the ordinary operating expenses, including something in the way of net earnings. Such traffic is of importance even on these terms. It increases the volume of the traffic and thereby decreases the cost of the same per unit. By contributing something to net earnings, it also decreases the amount that will have to be borne by the rest of the traffic. The deficiencies in the net earnings from low-grade traffic should be made up by higher rates on the higher grade traffic.

Used in this way, cost of service determines not the actual reasonable rate to be charged but the minimum necessary rate.

15. *What the traffic will bear.*—The Cullom Committee, whose report was responsible for the constitution of the Interstate Commission, said: "The capacity of each commodity to contribute to the payment of the fixed charges is measured by the extent to which the cost of its transportation fixes its market value and determines the question of its movement. . . ." Commissioner Lane, who during his tenure of office as a member of the Interstate Commerce Commission, was a most trenchant critic of railway evils, has said:

> . . . consideration must be given to what may be termed public policy, the advantage to the community of having some kinds of freight carried at a less rate than other kinds, and this is the true meaning of the phrase, "What the traffic will bear." It expresses the consideration that must be shown by the traffic manager to the need of the people for certain commodities. He accordingly imposes a higher rate upon what may be termed luxuries as compared with that imposed upon those articles for which there is more universal demand. . . .[1]

Albert Fink, who was the first railway official in the United States to attempt to make a scientific study of traffic, said:

> The question that greatly controls tariffs is *what is the service worth* not *what does it cost;* and this is a mere commercial transaction uncontrollable by acts of legislation. The relative value of an article at the place from and to which it is shipped determines the charges for transportation it can bear. If a greater charge is made than the difference in these values, the article cannot be moved. It may, therefore, be found necessary to charge on some articles less than the full cost of transportation, in order to enable them to be moved at all, and this

[1] *22 I. C. C., 623.*

necessitates again to charge more on others which can bear higher charges.

Is the principle which the foregoing quotations set out limited to railway business alone?

46. *Principle applied in department stores.*—Some years ago the writer had the interesting experience of being shown through the various departments of Canada's greatest department store. The guide stated that it was the policy to have every commodity sold within six months. It was stated that, of course, in most departments the commodities were turned over many times in the six months' period. In the picture department, however, the sales were normally slower. But the rule that all articles must be disposed of in six months applied here as well. If a picture would not sell at the price originally marked, the price would be reduced, and successive reductions, if necessary, would be made so that the picture would be disposed of in the six months' period. Now the picture might be disposed of at a very slight profit, or even at cost. The other commodities handled in other departments might contribute in greater degree to fixed charges and to profits. The rate of profit would of necessity vary with the conditions of demand. But in the last analysis all the commodities must be disposed of at such prices as would meet not only the charges special to them, but the overhead charges as well, plus some contribution to profits. What each commodity would pay to overhead charges and profits would depend on the price at which the commodity could be sold; in other words, on the ability to pay.

47. *Applied to a newspaper.*—Some years ago a Canadian, resident in California, subscribed for a Canadian daily paper. He found that the price per annum west of the Mississippi was much less than it was in Can-

ada. The contents of the paper were the same in Canada as in California. In Canada, the subscriber obtained the daily news from its columns. In California the subscriber of necessity received the daily news from other sources. He was, however, interested in keeping in touch with various developments in Canada. Was the paper sold in Canada at a higher price in order that it might sell for a lower price in California? Was the price for the Californian subscriber a reasonable price covering cost and profit, with the corollary that the Canadian price was excessive? As a matter of fact, the service in Canada was different from that rendered in California. The paper sold west of the Mississippi may be regarded as a by-product. To the extent it contributed something over and above actual cost to general expenses it was aiding in holding down the price in Canada. The price as charged in Canada was not exorbitant. Presumably it was felt that to sell the paper to the Canadian subscriber at the same price as west of the Mississippi would not yield a fair average profit on the investment. The only conclusion that can be arrived at is that having in mind the different services rendered in the two sections, the lower charge was all the traffic would bear.

48. *Practical meaning of the term.*—There is no question but that if the railway rate is so fixed so as to take up the difference between the price at the place of original shipment and the price at destination—the full measure of the value of the service—this is extortion. But the term "what the traffic will bear" is concerned with something within this outside limit. It is concerned not with "all the traffic can bear," but what it can bear and at the same time afford a mutual profit.

Reference is sometimes made to the fact that many

articles of light weight and high values could stand very much higher rates than at present, without seriously affecting the consumer. To say, for example, that an increase of 10 per cent in the rates on furniture might add sixteen cents to the cost of a dining-room set; that an ordinary suit of clothing might be increased from a third to half a cent by a 10 per cent increase in freight charges; and that by a similar increase the cost of shoes might be increased one cent per pair, is really to beg the question, because the question is not that the article in question could stand a very much higher rate without appreciably affecting the consumer, but, is the rate reasonable? As has been aptly said, "Statements like these . . . emphasize the economy of the transportation service; but they also show with equal clearness that if the carrier is not prevented by competition or by government interference, he may exact such rates of producers as would compel them to pay much greater sums to the carrier than it is entitled to receive."

Charging what the traffic will bear has, with the recognition of its proper limitations, a justification. While the transportation charge is not properly a tax since it is a payment for a specific service, while in the case of taxation it is difficult to earmark the particular benefit received, it bears an analogy to the basis of taxation, namely, ability to pay. Properly applied, charging what the traffic will bear means so apportioning the charges as to allow the freest possible movement of all commodities. Certain charges, as has been seen, do not vary with the traffic. No article should be handled at less than the out-of-pocket charges for its movement. But what shall it contribute to the general expenses? As the Wisconsin Commission points out, there must be considered the value and nature of the article as well. If, then,

ice, lime, or stone cannot contribute much over and above out-of-pocket expenses to constant expenses, some other commodity must bear more.

Some years ago, a railway official stated that rates were based on competition, comparison, and compromise. That is to say, rates are wholly empirical. While this may be too broad a generalization, the experience of Germany is in point. There, on the government owned and operated railways, there was at first a "space" tariff whereunder each commodity paid an equal rate per mile based on the space occupied by it in the car, plus a fixed terminal charge. Now there is in operation a tapering rate. The rate per kilometer decreases as the distance increases, and it is also modified in particular cases by competition. The government has had to consider the ability of commodities to pay. In the export rates of the German railways to the seaports, the same recognition of competition is to be found both in respect of water and of market competition. For example, to meet the competition of British manufactured goods at the seaports, similar German goods are carried by rail to these ports at much lower rates than are charged on local rail movement.

49. *View of Canadian Manufacturers' Association.*—*Industrial Canada,* the organ of the Canadian Manufacturers' Association, in dealing with the subject from the shippers' standpoint, stated the situation as follows:

Criticism of the railways and their methods of rate-making should be tempered by a consideration of some of the problems they have to meet. In theory, no doubt, a carrier should charge the same rate for the same service under all conditions. Practically such a thing is impossible. In order that the factories of Ontario may operate, it is necessary that coal be carried from Pennsylvania. It must be delivered for a few dollars a

ton; it costs so much at the mine mouth; the rest goes for transportation. If more were charged the factory could not buy it and the business developed by that factory would cease. For that reason, railways are hauling coal at a price which in itself would not pay the cost of operation. They do it in order that business in their territory may be developed. The man who establishes a smelting plant in Ontario must be able to manufacture pig iron at a cost which will enable him to sell in competition with his competitors in Pittsburg, Sydney, or any other point. With fixed charges established and the cost of ore and coal at the mine mouth uniform, he is able to pay for transporting that ore and coal only so much. That is all the traffic will bear. It rests then with the railway to say whether for the sake of the business such a plant will bring into existence, or to keep rolling stock moving or to provide return cargoes, this traffic is worth while at such a price. But the principle, that of charging what the traffic will bear, is sound and is indeed the only system which is at all practicable. The idea that other industries have to pay extra to make up for low rates on raw materials is absurd. The business has to be taken at a low price or not at all. By taking it fixed charges are distributed over a wider bulk of business and conditions are to that extent improved for other users of the service. It probably costs a railway as much to handle a ton of coal as a ton of silk. If the rates were averaged the buyer of a piece of silk might benefit to the extent of a cent or two, while the householder would find his coal bill go up some dollars a ton. The suggestion would be no more popular than feasible. As the present system is the only one which practical railway men have so far been able to devise and as it has been approved by shippers as right in principle, though frequently, it is true, somewhat unsatisfactory in its individual incidences, we may be allowed to accept what we have rather than . . . to fly to evils that we know not of.

What, then, is the test of reasonableness? Distance, bulk, conditions of loading, value, competition, cost of

service—these and other factors all have weight. But no one factor can be pointed to as exclusively applicable in every case. There is no yardstick of reasonableness. While there are factors capable of more or less precise determination which bear upon the question of reasonableness, the final answer of a regulative tribunal must be that the reasonableness of a rate is a matter of judgment.

CHAPTER IV

FREIGHT RATES IN PRACTICE

50. *Class tariffs and commodity tariffs.*—By reference to the classification it may be ascertained in which class the article (for example, cotton piece goods) the shipper desires to send is to be found. By reference to the appropriate tariff the rate for the article will be found.

Tariffs may name rates either by classes or by commodities. When they name rates on specific commodities, these commodities are taken out of the ordinary classification rating. In Canada and in the United States, tariffs quoting rates on commodities are known as commodity tariffs. In England and Germany they are known as Exceptional Rates. Commodity tariffs are concerned with the lower grade goods.

In a commodity tariff the normal unit is the carload. A commodity rate is in general a recognition of the volume of movement. It may be given with the intention of developing an industry, or as a recognition of a large tonnage from a staple industry—for example, the movement of grain or live stock in Canada. When there are different classifications in a country, as in the United States, we find, for example, in the Southern Classification, raw cotton, a staple commodity, given a commodity rating, while under the Western and the Official Classifications it has a class rating. Again, the volume of movement of iron ore in the northern states leads to the

establishment of a commodity rate. A commodity rate may be given as a result of water competition, as in the case of traffic destined to the Pacific Coast.

In Germany, the reasons given for granting such rates will outline the extent of the practice. The reasons summarized are: railway competition, competition against waterways and highways, competition against foreign transportation ways, competition to divert traffic to a given harbor, competition of markets, rates granted to develop industries which have unfavorable geographical situation, rates granted to ensure the continuity and increase of transportation. For England, the granting of such rates has been justified by the foregoing considerations and, in addition, by volume and regularity of traffic, loading per car or per train, earning power of the traffic, liability or non-liability to damage, general considerations of what the traffic will bear.

As indicative of the nature of the commodities on which such rates are granted, the following list of the principal articles on which carload commodity rates are published in Canada may be referred to:

Canned goods, lumber and shingles and rough forest products generally, salt, coal and coke, ores, grain and grain products, cement, hides and skins, packing-house products, iron and steel articles (coarse), building material (brick, stone, sand, lime, etc.), paper, wood-pulp, petroleum and its products, fertilizers, sugar and molasses, starch and glucose, ice, sugar beets, cooperage stock, potatoes, turnips, onions, flaxseed and meal.

As an example of the method pursued in building up a particular commodity tariff, reference may be made to the C. P. R.'s special coke and coal tariff, C. R. C., No. W1296, effective October 4, 1909. This tariff, which applies in western Canada, took coal out of the

10th class, to which it belongs, and worked out the following basis, the rate tapering as the distance increases:

100 miles and less	66%	of 10th class
200 " " "	64%	" "
300 " " "	63%	" "
400 " " "	62%	" "
500 " " "	61%	" "
600 " " "	60%	" "
700 " " "	59%	" "
800 " " "	53%	" "
1000 " " "	51%	" "

Class rates apply to movements either way. They carry the notation that they are effective "between" stations. A commodity rate is specific and applies to a movement in one direction, unless otherwise noted. For example, the Canadian Pacific tariff on grain, flaxseed and grain products from stations in Manitoba, Saskatchewan, and Alberta to Westport, Fort William, and Port Arthur is limited to the movement in the one direction and to specific points.

Commodity rates are extensively used. In Canada, at least 75 per cent of the railway tonnage is carried on commodity rates. In the United States, probably a larger percentage of the business is so transacted. On the transcontinental business to the Pacific Coast, into which water competition enters as an important competing and regulative factor, all the rates may be regarded as commodity rates. In England, the commodity rates cover about 75 per cent of the business; in Germany, about 63 per cent.

51. *Comparisons of freight traffic.*—Comparison between the freight rates of Canada and the United States on the one hand and the freight rates of England and Germany on the other hand are often made with a view of showing how low are the rates of the New World.

Before making comparisons one must be sure that there is a common denominator.

While in Canada and in the United States the increase in the number of carload ratings and the increase in the size of the cars has had its effect in the increase of the average tonnage per car, commercial conditions differ in England and in Germany. In Canada and in the United States the 30-ton car may be taken as the normal car. In England the 10-ton car and in Germany the 20-ton car are the normal cars. The Canadian Pacific in moving grain to the head of the Lakes, in trainloads, can average 33.75 tons per car. In England the average consignment of grain is about 2 tons. In general merchandise in England an average of the business from a representative station of the Great Northern on one day showed 4,427 packages, which had a total weight of 123 tons. The average weight per consignment was two cwt., the average weight per package was 62 lbs. The total number of cars to move this business was 72, while the average load per car was 34 cwt. Under the most favorable circumstances the average loading of merchandise per car on the London and North Western does not exceed three tons.

In Canada and the United States large cars with large shipments are used. In England, small cars with small shipments and greater despatch are used. Some years ago an officer of the Caledonian Railway, in comparing the rates of the quantities normally moving on his railway with those out of New York and Philadelphia, found that on groceries, dry goods, and tea up to distances of forty or fifty miles, the rates on his railway were lower.

In Canada and the United States, the ton-mile rate, a work distance rate, built up by multiplying weight by

distance, affords a statistical measure of earnings. Ton-mile rates are kept in England by the North Eastern Railway, and comparison may be made with the German railways. But in England and in Germany the average haul and average loading are, because of differences in business conditions, very much less than in Canada and in the United States. In England it would be too expensive, even if business were so conducted, on account of the expense of terminals, to hold trains until maximum tonnage was accumulated. The ton-mile rates in Canada are held down by the long hauls. Ton-mile rates are of value as a measure of earnings and of the work done for the earnings. But they are useful for comparative purposes only when conditions are similar. Since they are averages of all kinds of traffic, long haul and short haul, carload and less than carload, high-grade and low-grade tonnage, they are averages which do not necessarily afford a conclusive criterion of the reasonableness of a rate.

52. *Component factors of a rate.*—While in England charges for station and other terminal services are recognized as being distinct from the haulage charge, in Canada and the United States the practice is to quote an inclusive rate.

Logically, the freight rate is composed of two factors—the terminal charge and the haulage charge. Whether the terminal service is carried on in a large expensive terminal or at a small wayside station, the service is distinct from that performed in the road haul. In the Grand Trunk terminals at Ottawa it takes, allowing space on the team track for a car and for the necessary roadway for access, a space of 800 square feet per car. This space at $5.00 per square foot represents an investment of $4,000 for freight-car space per car. Then

there are the freight-shed facilities and the switching expenses. Switching movements in terminals have been computed as representing per mile an expense of from six to twelve times that incurred per mile on a road haul.

In the terminal cost there is included not only the cost of the particular movement, but there is also the question of its contribution to overhead expenses. Then, again, there is the complicated question of the joint cost of the terminal as between freight and passenger services. Aside from large expenditures on passenger stations it is to be remembered that the passengers move themselves in and out of the terminal; the freight has to be moved.

On the road haul there are the expenses for the wages of the train crew, the cost of fuel, oil, waste, wages of engine crews. Here, again, there is not only the question of the cost of the particular movement, which in the case of a trainload movement moving continuously through a division may be computed, there is the further and more difficult question of what contribution the commodity moved should make to overhead charges.

Both in the case of the terminal costs and of the road haul costs the matter is complicated by the fact that differing quantities may be concerned, carload and less than carload quantities, the costs of handling which differ.

The terminal costs at both ends of the haul are constant whether the haul be for 10 or for 300 miles. But in the cost of the road haul the services incidental to the movement do not increase in the same ratio as the mileage. Further, the necessary terminal cost is a greater percentage of the joint cost on the short haul of, say, 10 miles than on the longer haul of 300 miles. As the distance increases the haulage charges tend to vary inversely, while the terminal costs chargeable against the movement also become of less importance

per mile as the distance increases. That is to say, on a basis of ton-mile earnings, the ton-mile rate tends to decrease as the distance increases.

In the trans-shipment of grain cargoes at Depot Harbor the Parry Sound Railway placed grain on cars at an expense of 25 cents per ton. The board has recognized that in dividing up a rate to arrive at the reasonableness of the component parts a terminal expense of 20 cents per ton is not unreasonable. Byers, in his "Economics of Railway Operation," has figured out terminal costs on the basis of New York figures as follows, per ton:

Interest and depreciation	28.6
Station services and shipping	41.5
	70.14

In 1906, the Canadian Pacific made a computation as to switching costs in terminals at Winnipeg on line haul business; that is, on carloads received from or shipped to points outside of Winnipeg. The services performed were classified as follows:

(a) The expense of assembling and sorting through cars. This covered 185,501 cars handled an average movement of 3,600 feet. The cost was computed at $3.99 per car.

(b) The placing, sorting, and assembling of cars for local sidings in C. P. R. terminals. This covered 134,202 cars, with an average movement of 7,200 feet. The cost was computed at $5.32 per car.

(c) The transfer of cars between the Canadian Northern and Canadian Pacific at St. Boniface, destined to or received for siding delivery in either terminal. This covered 24,961 cars, with an average movement of 20,050 feet. The cost was computed at $6.65 per car.

The cost figures were based on interest and depreciation on the freight terminals; interest and depreciation on the engines used exclusively in the switching service; actual cost of fuel, oil, waste, and repairs on these engines; actual cost of wages, superintendence, etc., in connection with exclusively terminal work.

These figures, assuming that the cars were of 30-tons capacity, gave averages per ton as follows: (a), 13.3 cents; (b), 17.7 cents; (c), 22.1 cents. If an average is struck of all the cars switched it amounts to 16 cents.

The Wisconsin Commission has worked out the following computations of terminal cost per ton for the different classes of the Western Classification:

Classes.......	1	2	3	4	5	A	B	C	D	E
	$1.68	$1.39	$1.12	84c.	67c.	75c.	58c.	50c.	42c.	33c.

If we arbitrarily assume that one ton of each class is moved this would give an average of 82.8 cents per ton to cover terminal costs at both ends of the line.

Variations in terminal expenses will be found not only in regard to the cost of terminal properties, but also in connection with the nature of the loading. In a specific case the Wisconsin Commission has computed that when—

Car is loaded with 5 tons freight, terminal expenses are per ton.........	$1.68
Car is loaded with 15 tons freight, terminal expenses are per ton.........	.56
Car is loaded with 20 tons freight, terminal expenses are per ton.........	.42

53. *Distance as a factor in rates.*—Examples have already been given showing how in rate-making distance may be minimized. In addition to those already given, reference may be made to the system of group rates. In Illinois, in the movement of coal, points forty miles apart have been grouped under the same rate. Under the Canadian Pacific coal and coke tariff, already referred to, the Lethbridge group, including six shipping

points, covers a distance of fifty miles. Examples either of the originating or of the destination points being grouped are quite common. Reference may be made to the class and commodity tariffs westbound to points west of Lake Superior, including the Pacific Coast, to the rates on grain and grain products from Fort William to eastern points, Montreal and west thereof, and to the rates on lumber and forest products from British Columbia Coast and interior mills to eastern Canada.

The regulative tribunals of England, Canada and of the United States have recognized that reasonable grouping is permissible. Grouping arrangements usually come into existence where there are a considerable number of points supplying a commodity of general demand to a common market. Grouping at the destination points may also occur when such a commodity is marketed over a considerable area after a long haul.

But while, because of special conditions, distance may be minimized, it is, in the absence of such disturbing conditions, always to be reckoned with.

The most interesting example in America of the adoption of the distance basis of rate-making is to be found in the territory of the Official Classification. This territory is subdivided into Trunk Line Association territory, which may, in a general way, be described as the section east of a line drawn through Buffalo, Pittsburg, Parkersburg, West Virginia, and Norfolk, Virginia. West of this is to be found Central Freight Association territory occupying the remainder of the Official Classification territory.

In the early seventies the railways located in what is now the territory of the Official Classification were engaged in cutthroat competition. In addition, the water competition of the lake carriers was also felt. As an

outcome of this there was worked out a system whereby the Chicago-New York rate was taken as a base rate.

The rate system so built up was concerned with the movement from Central Freight Association territory, in which are located some 8,000 stations. Taking the base rate as 100 per cent, the shorter distance points have rates worked out on a percentage of the base rate. For example, on the movement from Detroit to New York, Detroit has 78 per cent of the Chicago rate. Toledo and Sandusky are 71 per cent points. The rate adjustment works westward to the Mississippi River crossings, where 125 per cent points are to be found.

While the percentage system was adopted in 1876 there have been various readjustments and regroupings since that date. Water competition, market competition, and the effect of the rail movements of north and south lines working in this territory have aided in bringing about the system as it stands today. The result is that instead of percentage points there are percentage groups. While the system was concerned in the first instance with the movement eastbound, it now in general applies westbound.

A similar system is made use of in the movement from points in Central Freight Association territory, intermediate to Chicago, to points in Trunk Line territory intermediate to New York.

The basis on which the percentages are worked out is as follows:

From an assumed rate of 25 cents from Chicago to New York there was first deducted the sum of 6 cents to represent the fixed terminal expenses at the points of origin and destination. The remaining 19 cents represented the assumed charge for the rail haul, exclusive of any service at either terminal. This rate being divided by 920, that being the accepted short line

mileage from Chicago to New York, yielded a rate per mile of 0.0206 cent for a movement from Chicago to New York under the assumed rate; and this rate per mile was used as the factor for establishing an assumed basis from any particular junction or competitive point on the basis of its mileage to New York. That factor or rate per mile multiplied by the number of miles from the particular point to New York gave an assumed rate for the rail haul from that point exclusive of any terminal service at either end of the movement. To that assumed rate, the six cents was again added to cover the terminal expenses at the points of origin and destination. The result gave an assumed rate from the particular point to New York including the terminal charges, and the percentage which this assumed rate bore to the assumed rate of 25 cents from Chicago to New York determined the percentage of the Chicago rate which the particular point would take on any given class of merchandise.

To illustrate by a concrete example, the short line mileage from Indianapolis to New York is 833 miles. Then 833 miles times .0206 cent equals 17.2 cents. To this add 6 cents for fixed terminals, and a total of 23.2 cents, or 93 per cent of the Chicago assumed rate of 25 cents, is obtained. Therefore, Indianapolis is a 93 per cent point.

54. *Competition of lines of different lengths.*—Where a railway has to meet between two points the competition of the shorter mileage of another railway, the short line mileage rate of necessity governs. Between Fort William and Winnipeg the Canadian Pacific mileage is 419, the Canadian Northern 436, and the Grand Trunk Pacific 449. The C. P. R. mileage makes the rate. Again, between Portage la Prairie and Regina the C. P. R. mileage is 302, while the Grand Trunk Pacific is 323 miles. Here, again, the C. P. R. rate is taken.

Differences in mileage as between different routes connecting two points are common. For example, between Chicago and Kansas City we have the following:

	Miles
Atchison, Topeka & Santa Fe	458
Burlington Route	489
Chicago & Alton	488
Chicago Great Western	597
Chicago, Milwaukee & St. Paul	498
Rock Island Route	517
Wabash	512

But the competition is not necessarily limited to that existing between lines of slightly differing lengths. Once a railway is built the capital is fixed, and so in order to obtain a return on the investment it may participate in traffic which is handled by an exceedingly roundabout route. Between New York and New Orleans there are about one hundred all-rail routes which may compete for business. The shortest route is 1,340 miles; the longest is 53 per cent greater. When such a roundabout route competes for this business it must, of necessity, reduce its rate on the principle of what the traffic will bear.

Under such circumstances the anomaly may arise of the rate being controlled by the longer line or route, for the longer line, not being able to give the same despatch, may have to give a more advantageous rate. Just before the Civil War the Grand Trunk carried flour from Chicago to Portland by rail and thence by water to Boston by boat in competition with all-rail American lines. From a situation like this may arise so-called "differential" rates.

55. *Differential rates.*—A differential rate arises where two or more competing carriers agree that a prescribed difference shall exist between their respective

rates. This may be regarded as a concession to avert a greater cut in rates. When the Canadian Pacific entered the field of through business it engaged in the carriage of business to San Francisco by means of its rail route to its Pacific terminus and thence by boat to destination. It took the position that as it was a broken rail and water route, and was in its then condition a weak route, a differential should be allowed. It also emphasized the disadvantage it labored under because of its roundabout route—4,020 miles by rail and water as against 3,270 all-rail.

In 1887, the American lines agreed that on business to San Francisco the Canadian Pacific might quote rates lower, by agreed differences in cents per class, than the all-rail American lines. At the end of 1892 the Canadian Pacific adopted the principle of charging rates 10 per cent less than those of the American lines. The latter contended that this was not a differential, but a "cut" rate, since they had not agreed to it. The matter came to arbitration in 1898, when it was decided that the Canadian Pacific was not entitled to a differential.

The Grand Trunk has a differential freight rate from New York and New England points, all-rail, as against the standard lines to Chicago. It also has differential rates via the Ottawa Division and Depot Harbor, the rates being 10 cents below the first-class rate from New York and 5 cents below the first-class rate from Boston. American lines handling freight through Canada also participate in such arrangements. There are in effect over a route composed of the Boston and Maine, Rutland, New York Central, and Michigan Central or Wabash railways the same differential rates as via the Grand Trunk.

56. *Water competition.*—An early example of water

competition in the passenger business is set out in an advertisement published in 1788 by the Philadelphia and Baltimore Eastern Shore stage line, which stated that its coaches would carry a passenger from Philadelphia to the Susquehanna River for £1 6 sh., and from that point to Baltimore, 37 miles further, free of charge. That is to say, on the last 37 miles of the journey it had to meet the competition of water carriers.

In 1892, complaint was made before the English Railway and Canal Commission that the rate on flour and grain from Bristol to Birmingham, a distance of 141 miles, was 8 sh. 6d., while from Birkenhead to Birmingham, a distance of 98 miles, it was 11 sh. 6d. The commission found that the difference in rate was due to efficient railway and water competition.

In the transportation system of the section of North America which may be determined by a line drawn north and south through Omaha the effect of the Great Lakes and the St. Lawrence is very important. In general, the average rate which carries a ton one mile on the railway will carry it three miles on the lakes. If the various grain routes to the seaboard are considered the importance of the alternative water route and its competitive effect will be apparent.

From Chicago grain may move eastward to the seaboard by the following routes: to Buffalo by rail, thence via the Erie Canal and Hudson River, or by all rail to New York; to Erie by lake, thence by rail to Philadelphia or Baltimore; by lake to Canadian lake ports, thence by rail to Montreal, St. John, Portland, or Boston; by lake and canal to New York; all-rail to Philadelphia, Boston, New York, Baltimore, and Newport News; by lake, canal, and the St. Lawrence. That is to say, there are routes to eight ports on the North

Atlantic seaboard, and the lake route has a controlling effect over all.

On the movement from Minneapolis the following routes are available: all-rail to the seaboard via Sault Ste. Marie; by rail to Gladstone, Michigan, and thence by lake and canal or other combination; by rail to Duluth or Superior and thence by lake and canal or other combination.

Shipments of grain from the Canadian Northwest may move: all-rail to the seaboard; by rail to Fort William or Port Arthur and thence by lake to Canadian lake ports and thence eastward by rail; or by lake to Buffalo and thence eastward by rail or other combination; to Duluth by rail and thence eastward by lake and rail; or by lake and canal combination; or by lake, canal, and St. Lawrence.

As has been pointed out, in the movement to the Pacific Coast water competition is important. To-day the China Mutual, or Blue Funnel Line, is bringing in monthly to British Columbia via the Suez Canal from three to five thousand tons of package freight. This is distributed east into Alberta. If the combined ocean and rail rate west to British Columbia is to get a share of this business it must meet this competition. In the movement of cotton piece goods from New England to China over the Canadian Pacific and its connecting steamships on the Pacific there has to be considered the rate offering to China by way of the Suez Canal. Meat shipments from Canada to London, England, may move all-water to London or by water carriers to Liverpool and by rail to London. The water rate holds down the combination rate. Shipments of produce from Denmark to Liverpool may move all-water, or may move by water to the east coast and thence by rail to Liverpool.

Here, again, the water rate holds down the combination rate.

The board has recognized that rail carriers may have to meet the competition of water carriers. Its position in regard to water competition is summarized in the *Complaint of the Blind River Board of Trade,* decided March 12, 1918. In this decision it in substance said that, while a railway was characterized by a large investment of fixed capital, the expenditure of a sum of money which would be sufficient only to construct six or seven miles of fully equipped railway track will provide a water carrier which can move freely from place to place and from route to route over the free right of way of the waters. The railway may, therefore, have to meet water competition at given points. The extent to which it will meet it is in its own discretion.

57. *Changing centers of production.*—In the United States the westward movement of the agricultural centers has had an influence on rates. In the north it has lessened the importance of Lakes Erie and Ontario as controlling factors. About the time the Erie Canal became an efficient carrier the Genesee Valley in western New York was important in wheat production. Since the seventies the center of wheat production in the United States has been moving north and westward until now it is west of the Mississippi.

In western Canada, the wheat area is not reached until a point some four hundred miles west of Lake Superior is reached. This has increased the traffic importance of the Upper Lakes. Coupled with this is the fact that on account of this northward and westward movement east and west lines of movement from Georgian Bay are now of increasing importance.

In the southern portions of the United States the

westward movement of the cotton crop, as well as the development of the wheat areas of Kansas and of Oklahoma, have added to the efficiency of ocean competition by way of the Gulf of Mexico.

In the United States this westward movement of grain has created a competitive area extending from the international boundary as far south as Kansas and Missouri and west to the western boundaries of the Dakotas. Its effects are especially noticeable in connection with the primary grain markets. Grain from the Dakotas and Minnesota is normally tributary to Minneapolis and Duluth; it may move to Chicago. The grain of Missouri is normally tributary to St. Louis; it may move to Chicago.

58. *Competition of ports.*—As has been seen in discussing water competition, Chicago has some eight possible outlets on the North Atlantic seaboard. With the westward development of American railways the short line mileages to the seaboard have been readjusted. This is illustrated in the following table:

Short rail distances from some of the interior grain markets and packing-house centers to New York and to New Orleans.

	To New York	*To New Orleans*	*Saving to New Orleans*
Chicago..........	912	912	..
Duluth...........	1,390	1,337	53
Minneapolis.......	1,321	1,268	53
St. Paul..........	1,321	1,268	53
Sioux City........	1,422	1,258	164
Omaha...........	1,402	1,070	332
Dubuque.........	1,079	988	91
St. Louis.........	1,058	695	363
Kansas City......	1,335	878	457

If, beginning at Duluth, a line is traced running south to Lake Michigan and following the western boundary of that lake to its southern extremity, thence swinging

southwesterly until the south Atlantic seaboard is reached a little south of the northern boundary of Georgia, it will be found that all points west of this line are nearer to the Gulf ports than they are to New York.

Of course, the mere question of distance is not the only controlling factor. The question of the volume of traffic moving, the matter of established trade routes, and the amount of ocean tonnage offering at the port are important factors. As between Montreal and New York, the volume of ocean tonnage offering is necessarily an important factor. The contests between Boston, New York, Philadelphia, and Baltimore centering around the question what differential or difference below the longer route to New York rates should be allowed to Boston, Philadelphia, and Baltimore all point to the importance in connection with a transportation movement and railway competition of established trade routes and amount of ocean tonnage at the ports.

59. *Market or trade competitio* —As industries expand they naturally develop competition in common markets. In the adjustment of their rates the railways are constantly faced with the question of this competition and of the extent to which they will by readjustment of rates extend the area in which industries may compete. It may happen that from this, wastes of transportation will arise through overlapping of markets.

The sugar refining industry of Canada affords a striking example of trade competition. Sugar refineries located at Montreal and at Wallaceburg compete in Toronto and in the Canadian Northwest. A sugar refinery located in Vancouver meets the competition of the eastern refineries in Manitoba. The Knight Sugar Refining Company, of Raymond, Alberta, is also engaged in the manufacture and distribution of sugar in Alberta.

What are the boundaries of the respective markets? Where shall the rates meet?

Sugar moves west from Montreal on a fifth-class rate; it moves from Vancouver on a commodity rate. Under this arrangement the rates meet at Portage la Prairie, Manitoba. When the board by its order in the Regina Rates Case reduced rates westward from Fort William, complaint was made by the refining company at Vancouver that this, by extending the Montreal territory westward, had curtailed the territory naturally tributary to Vancouver.

The Canadian Oil Company applied to the Canadian Railway Commission to reduce its rates from Petrolia to the Northwest to meet the competition of American oil refiners selling in the same field. It was recognized that the competing companies had certain situation advantages, water competition, and low cost of raw material. On this state of facts it was held that the rates, not being challenged as unreasonable, and the trade disadvantages not having been created by the Canadian railways, the direction asked for could not be given. While it is the function of a rate-regulative tribunal to deal with reasonableness of rates, it is not concerned with so equalizing trade profits that all may compete on an even keel.

Again, in another case it was contended that cheese and bacon are complementary commodities and that the price of cheese in England is regulated by that of bacon. It was, therefore, urged that this should be considered in Canada in fixing the rate basis on export traffic. It was held by the board that this was a phase of market competition, and that the extent to which the railways should consider it was, if the rates actually charged were not unreasonable, in their discretion.

Just how the claims of competing industries located in different sections of the same line of railway are to be adjusted is a matter of extreme delicacy and difficulty. The board has recognized in a case of such competition arising from an industry located on another line, that in the case of brick from Bradford, Pennsylvania, when the Windsor rate on this article was higher than the Detroit rate, the Detroit rate was held down by the trade competition of the similar brick produced at other points in Ohio which were nearer to Detroit. If the brick moving the longer distance from Bradford was to share in the Detroit business, it had to meet the Ohio rate.

Market competition is not limited to domestic movement alone. The rate grain can stand depends upon the price at which grain stands in the world market. In that market Russia, India, Australia, Argentina, Canada, and the United States compete. The wheat of Argentina, which is for the most part grown within four hundred miles of tidewater, and the greater part of whose carriage to Liverpool is, therefore, by water, competes with the wheat of Canada and of the United States which has a rail haul of two thousand miles to the seaboard. Canadian bacon must compete in England with Danish bacon. Canadian butter competes in England with butter from Denmark and Siberia. Copper from Butte, Montana, competes with the water-borne copper from the Rio Tinté mines.

60. *Improvements in roadbed and rolling stock.*—The effect of improved track and rolling stock is concerned with the net profit of operation rather than with the rate actually charged. But it has an indirect effect upon the rate in that it adds to what the railway can do in its operation, and, therefore, gives it an advantage

in point of such rate reductions as are brought about by the factors already outlined. Further, since its improved operating condition enables a large volume of business to be handled more economically, it permits the railways, by lowering rates, to stimulate that volume of business which is essential to the full return from its improvements.

In the roadbed there have been great improvements. The 56-pound rails of the early seventies have been replaced with 80-, 90- and even 100-pound rails, thereby enabling heavier rolling stock to be carried. In the endeavor to carry heavy trainloads, thereby lessening unnecessary engine mileage, railways are now building on easy grades and curves. Heavy grades and sharp curves lessen tractive efficiency. The Canadian Pacific, which had a 4.4 grade on the Field Hill, has by tunnel construction cut this in two, thereby doubling engine efficiency. The Grand Trunk Pacific is being built on a .4 grade. The extensive improvements the Canadian Pacific is making in the Rocky Mountains look, by increasing efficiency, to offset the haulage advantages of the easy grades of the new lines.

Engines have increased in weight and tractive efficiency. For example, a Grand Trunk engine built in 1872 weighed with its tender 62 tons, while an engine built for the same railway in 1911 weighed 182½ tons. While the average amount hauled per engine per annum depends, of course, on the amount and nature of the traffic offering in the particular year and on the way the cars are loaded, comparisons of the average tonnage hauled per engine are an index of increasing engine efficiency. In 1908, on the Canadian Pacific the average tonnage moved per freight engine was 12,988 tons: in 1912, it was 19,892. For the Grand Trunk, the

figures in 1908 and 1912 were 18,787 and 24,331, respectively.

The impetus to increase in size of freight cars came from the construction in the United States and Canada in the early seventies of narrow-gauge lines. In the endeavor to introduce economies, increase in carrying capacity was looked to. In 1876, the standard capacity of the ordinary freight car was 15 tons. To-day 80 per cent of the freight cars of the Grand Trunk have a carrying capacity of 30 tons. The 15-ton car has practically disappeared. On this railway 6 per cent of the cars are of 20-ton capacity, while 40- and 50-ton cars account for 12 per cent.

The 30-ton car may be regarded as the standard general-purpose car to-day. The larger cars are used for heavy bulk commodities. Under the railway rules, a car may be loaded 10 per cent above its marked capacity. But the extent to which cars on the average can be loaded nearly to their carrying capacity depends on commercial conditions and whether tonnage can be held until a maximum load is obtained in the car. While the large cars used by ten of the constituent companies of the United States Steel Corporation averaged in 1912 36 tons per car, the average loading in Canada was less than half of this. From the standpoint of the railway, there is not only the advantage of the larger amount which can be handled in the larger car, thus economizing in engine and train mileage; there is also an increase in the pay weight per car. The tare or weight of the empty car does not increase in the same ratio as carrying capacity. Thus, out of the total loaded weight of a car, the tare of the 20-ton car is 41 per cent; of the 30-ton car, 35 per cent; of the 40-ton car, 32 per cent; and of the 50-ton car, 30 per cent.

CHAPTER V

PHASES OF RATES AND TARIFFS

61. *Freight tariffs and the Railway Act.*—Every tariff carries on its face the serial number of the railway's issue; also the date of issue and the effective date. For example, the Canadian Pacific tariff dealing with stop-off on lumber, issued January 8, 1918, effective February 10, 1918, bears the notation C. P. R. tariff No. E 2119, cancelling No. E 2409. In addition, it has to bear a Canadian Railway Commission serial number—in this case it is C. R. C. No. E 2515. A tariff may be amended by a supplement. In the United States the Interstate Commerce Commission rule is that the number of supplements which may be outstanding is governed by the size of the tariff. Tariffs filed with the Interstate Commerce Commission must bear an I. C. C. number. Tariffs concerned with the transit trade or with business from the United States to Canada or vice versa bear the serial numbers of both commissions.

Under the Railway Act, freight tariffs are classed as standard, special, and competitive.

62. *Standard tariff.*—The standard freight tariff or tariffs specify the maximum mileage tolls to be charged for each class of the freight classification for all distances covered by the railway. The distances are expressed in groups. The Railway Act permits relatively greater distances to be included in these groups for the

longer than for the shorter hauls. The standard freight tariff has to be filed with the board for its approval. When it is approved it has to be published in two consecutive weekly issues of the *Canada Gazette* before it can become effective.

The standard freight tariffs of the Canadian Pacific are representative of other railways operating in the same territory. The following groups of standard tariff territory of the Canadian Pacific may be distinguished: (a) from Sudbury east to the Atlantic; (b) from Sudbury to Port Arthur; (c) Manitoba and Ontario, west of Port Arthur; (d) Saskatchewan and Alberta, east of Canmore; (e) Alberta west of Canmore and British Columbia; (f) steamboat service in British Columbia inland waters; (g) the Kootenay territory; (h) the Crow's Nest territory.

The tariffs may be summarily described:

A. Local mileage freight tariff No. 1 applying Sudbury and east thereof:

Rates are quoted by mileage groups, which, up to 100 miles, advance by 5-mile steps. From 100 to 200 miles, the steps are by 10 miles, while from 200 to 1,000, the limit of the tariff, the groups are 25 miles. The rate quoted covers the entire group. Up to 100 miles the first-class rate is stepped two cents for each group. In the case of the tenth class the rate is stepped by one cent for each rate group, but here the rate-grouping becomes irregular. Up to 10 miles the rate is quoted on a 5-mile group; beyond to 100, the rate is quoted either on a 10-mile or a 15-mile group. Beyond 100 miles the rate steps are irregular.

B. Sudbury to Port Arthur:

This tariff covers mileages up to 3,000 miles. Up to 100 miles the groups are stepped every 5 miles; from

100 to 500 miles there are 10-mile groups. From 500 to 1,600 miles there are 25-mile groups, while from 1,600 to 3,000 the groups are 50 miles. Up to 100 miles, with the exception of the 20-25-mile group, the first-class rates are stepped two cents per group. In the case of tenth class, the rates advance one cent by 5-mile groups up to 25 miles. From 25 miles to 100 miles the rate groups are irregular, varying from 10 to 15 miles. Beyond 100 miles the rate steps are irregular.

C. Manitoba and Ontario, west of Port Arthur:

This covers a mileage of 1,500 miles. The first group covers 10 miles. From 10 miles to 100 the mileage groups are 5 miles each. From 100 to 500 miles they advance by 10-mile steps. The balance advances on 25-mile steps. The rate advances follow the same method as above indicated under *B*.

D. Saskatchewan and Alberta, east of Canmore, Alberta:

This tariff covers 1,500 miles. The mileage groups are the same as in the previous tariff. The rates advance by groups irregularly.

E. Alberta, west of Canmore, Alberta, and British Columbia:

This tariff covers 600 miles. Up to 100 miles groupings are the same as in the preceding tariff. From 100 to 300 miles there are 10-mile steps. Beyond 300 miles the steps are in 25-mile groups. The rates advance by groups irregularly. Here the mileage rates are based on the local mileage tariff (No. 270), which was issued in 1894. In building up the mileage, the railway has considered that the higher cost of operation in the mountains justifies assumed mileage being used. From Vancouver to Yale, at the head of navigation on the Fraser River, actual mileage is used. From Yale

to Revelstoke, each mile counts as 1½ miles, while from Revelstoke to Canmore each mile counts as 2 miles. On the Crow's Nest mileage, dealt with below under heading *I*, each mile was also made to count 2 miles.

F. Okanagan Lake steamer service:

This tariff covers 100 miles. The first group is 10 miles. Beyond this the groups advance by 5-mile steps. On first-class up to 30 miles the first-class rate is stepped 3 cents per group; beyond, the steps are 2 cents. The tenth-class rates are stepped one-half cent per group.

G. Slocan, Kootenay, and Trout Lakes steamer service:

This tariff covers 150 miles. Up to 100 miles the mileage groupings are the same as in the previous tariff. Beyond, the steps are in 10-mile groups. On first-class traffic, the first-class rates are stepped irregularly 3 cents. On tenth class the rate advances by one-half-cent steps.

H. Nakusp and Slocan, Kootenay and Arrowhead, Columbia and Kootenay, and Columbia and Western Railways:

This tariff covers 200 miles. The groupings as to the 100-mile and 200-mile divisions are the same as under *F*. From 10 to 15 miles the first-class rate is advanced by 6 cents; the remaining steps up to 90 miles are on a 4-cent advance. From 90 to 100 there is a 2-cent advance on each step. Beyond 100 miles the steps are irregular. The tenth-class rate proceeds by one-cent steps for each group up to 50 miles; beyond 50 and up to 200, in general the mileage group to which the rate applies is 10 miles.

I. Crow's Nest, B. C., and west to Kootenay Landing, B. C., inclusive:

This tariff covers 730 miles. The grouping up to 100 miles is the same as under *F*. From 100 to 300 there are 10-mile groups, while in the balance of the mileage there are 25-mile groups. On first class the rates are, with one exception, stepped 4 cents for each group. On tenth class up to 100 miles the rates on the groups up to 60 miles are stepped 1 cent for each 5-mile group; from 60 to 100, in general there are 10-mile groups. Beyond 100 miles the rate groupings are irregular.

The standard mileage tariffs above referred to apply in the absence of special tariffs quoting lower rates. They also apply on interchange business. the rule being that in a movement from a higher tariff division to a lower, or vice versa, the higher rate applies.

Reference to the figures given in connection with the standard tariffs will show that the rate scales are different in different sections. For the purposes of comparison the table on the opposite page covering rates for the first 100 miles may be consulted.

It must be remembered that these standard rates are simply maximum rates and in no way indicate the actual rates under which shipments move. They apply only where there are no lower special tariffs. It is impossible to make any general statement of how much lower the special tariffs are in any particular section than are the standard tariffs for that section. It is safe to say that from 90 per cent to 95 per cent of the traffic moves on rates lower than standard.

63. *Special and competitive tariffs.*—Special and competitive freight tariffs do not require the approval of the board before becoming operative. They come into force upon filing with the board, in compliance with the regulations of the Railway Act. A special

STANDARD MILEAGE RATES

	Districts	Rate per 100 lbs. 1st Class	Per cent of No. 1	Rate per 100 lbs. 4th Class	Per cent of No. 1	Rate per 100 lbs. 6th Class	Per cent of No. 1	Rate per 100 lbs. 10th Class	Per cent of No. 1
A.	Sudbury and East	36	.....	23	.....	16	.....	11	....
B.	Sudbury, Pt. Arthur	48	136	24	104	17	106	11	....
C.	Manitoba and Ontario. west of Pt. Arthur	46	127.5	23	.....	18	112	12	109
D.	Saskatchewan and Alberta, east of Canmore	50	138.8	25	108.7	19	119	13	118
E.	Alberta, west of Canmore, and British Columbia	80	222	40	174	30	187.5	19	173
F.	Okanagan Lake	55	152.7	27	117	21	131	14	127
G.	Slocan, Kootenay and Trout Lakes	54	150	27	117	21	131	14	127
H.	Nakusp and Slocan Kootenay & Arrowhead Columbia and Kootenay Columbia & Western Rys.	80	222	40	174	30	187.5	19	173
I.	Crow's Nest to Kootenay Landing	80	222	40	174	30	187.5	19	173

tariff reducing existing rates, in addition to being filed with the board, requires that for three days before the effective date of the tariff it shall be on file in every station or office of the company where freight is received, or to which freight is carried under the tariff in question, and that there shall be public notice at such place as to where tariff may be seen. In the case of increases of rates there is a similar provision except that thirty days' public notice is required. Competitive tariffs are not under any obligation as to public notice, this matter being left to the discretion of the board to fix such regulations as it may deem necessary.

To meet temporary emergency conditions special rate notices may, without publication, be issued quoting reduced rates on specific shipments between points on the railway which are not competitive. It is provided that the railway may issue these rate notices at its discretion, to help to create trade or develop the business of the company, or if it be in the public interest, and not otherwise contrary to the provisions of this act. The special rate notice has to be filed with the board, and is operative only for a specific shipment. It must also specify the reason for issuance and the rate which would otherwise have been effective.

In practice, the railways have been permitted, under the provision, so to provide for the prompt shipment of any freight which may unexpectedly offer and for which no suitable tariffs have been prepared, there being the condition that the filing and publication of the tariffs shall be immediately proceeded with. Such special notices may also cover the disposition of a shipment which has been forwarded to a wrong destination, or which may have been refused by the consignee. Small sample shipments, e. g., of ore, may be carried

under such notice for testing purposes, actual weight at carload rate applying.

Formerly such a notice might cover the removal of live stock by rail from exhausted grazing grounds to new pastures on the ranches of the Northwest for subsequent reshipment to the markets. With the change in agricultural conditions the need for this has passed. The railways are also permitted under such an arrangement to carry fuel for their employees at reduced rates.

64. *Transcontinental rates.*—When the Canadian Pacific entered the field of through traffic at the Pacific Coast it adopted in a general way the system as to terminal points which it found in use on the American railways to the south. These had been affected by various rate adjustments in which the competition by way of the Isthmus of Panama and Cape Horn had played an important part. The movement by way of Cape Horn is, so far as the movement from the eastern to the western coast of North America is concerned, of diminishing importance. Since 1900 a few chartered sailing vessels have each year carried cargoes around the Horn. The Panama Railway has been overshadowed in public interest by the Panama Canal. But the railway has been an important factor. Before it became the property of the United States government, the United States railways had been able to make it simply a differential rate route. The route by way of the railway across the Isthmus of Tehuantepec is of importance, and will be of increasing importance.

In the tariff covering rates from eastern Canada to British Columbia rates are quoted to fifty-three "British Columbia Coast terminals" and to twenty-three other points which take rates made up by adding to the terminal rate certain arbitraries or differences. The movement

is subject to the Canadian classification. The eastern points of origin are grouped, as Toronto and Montreal; Sherbrooke, Quebec, Cacouna, and St. John, N. B.; Mulgrave; Sydney. For other points there are specified arbitraries which, when added to the rate from the rate point, will give the total rate.

The rates charged from eastern Canada on transcontinental freight are based upon the rates charged by American railways on transcontinental traffic originating at Chicago. To the class rates from Chicago are added certain arbitraries to cover the haul east thereof from points in eastern Canada. For example, these arbitraries are in cents per 100 pounds by classes, as follows, in the case of the movement from Montreal or Toronto:

1	2	3	4	5	6	7	8	9	10
20	18	15	13	10	8	8	8	..	8

While the traffic originating in the eastern states is subject to keen water competition the water competition in eastern Canada is much less active. The class traffic originating at Chicago is also less influenced by water competition. The similarity in respect of lessened water competition is considered by the railways as justifying Chicago being taken as a basing point. The method adopted results in the following class rates:

	In Cents per Class per 100 Pounds									
	1st	*2nd*	*3rd*	*4th*	*5th*	*6th*	*7th*	*8th*	*9th*	*10th*
Toronto or Montreal rates	360	313	260	220	185	185	148	118	...	103
Sherbrooke, Quebec, Cacouna, or St. John, N. B	370	321	265	225	190	190	153	123	...	108
Mulgrave	374	325	268	228	192	192	155	125	...	110
Sydney	378	328	271	230	194	194	157	127	...	112

The ninth-class rate is not given, as this class covers live stock.

While class rates are thus quoted they are in the main negligible, since commodity rates are quoted on over 5,000 items, which cover in their inclusive sweep not only flour, furniture, iron and steel and their manufactures, tobacco, vegetables, but also skirt boards, go-carts, playing cards, paper fasteners, wax tapers, zithers.

In the transcontinental movement, United States railways are found participating. For example, in the lines mentioned as operating via certain gateways are the "Soo" line, the Great Northern, the Burlington, and the Union Pacific.

During the season of lake navigation there is a differential lake and rail route via Duluth, Fort William, Port Arthur, or Westfort. The rates, which include marine insurance on the lakes, are less than the all-rail rates to and from the same points by the following differences:

Classes	1	2	3	4	5	6	7	8	9	10
Cents per 100 pounds	10	8	7	6	5	5	5	5	5	5

In the movement eastbound from British Columbia to eastern Canada, class rates are built on the same general system as on the westbound movement. Here, again, the commodity movement is the important one. Aside from Oriental traffic, not far from 80 per cent of the transcontinental traffic eastbound is concerned with lumber, shingles, canned goods, canned salmon, and pickled fish. Practically all the movement is on commodity tariffs.

65. *Distributive rates.*—In Ontario, in the early days, the Grand Trunk competing with the Great Western

and its connecting boat lines put in competitive rates to common (that is, competitive) points. In the handling of merchandise the establishment of jobbing or distributing points naturally develops. The railways have in their rates shown recognition of such points. While it may be queried as to what extent a distinction in rate between a place which has so established a distributing business and one which has not is justifiable, the railways have in granting such rates recognized that they have not only the carload business in, but also the distributive business out, normally in less than carloads.

Distributive tariffs are of such a nature that the railways are constantly faced with demands for readjustments. A new jobbing center may develop. It naturally desires, when distributive rates are in effect, that it should have such rates. But distributive rates and the recognition of distributive areas tributary to certain centers are like a pair of scales. Anything that affects one scale affects the level of the other; and so one change may lead to a demand for another.

The tariffs given to distributing points are known as "town tariffs." The various points so treated may either be distributing or manufacturing centers. In effect they may be regarded as rate-basing points. The "town tariffs" in Ontario and east to Montreal were readjusted by the order of the board in the International Rate Case which was decided in 1907.

66. *International Rate Case.*—It had long been a source of complaint that the rates eastward to Montreal exceeded those westward from Montreal. Application was made by the Toronto Board of Trade that this discrepancy be removed. It developed that in order to deal properly with the matter is was necessary to have a general rearrangement of the class rates

between all points. Coupled with this complaint was a further complaint as to international rates on the ground that the rates from Detroit were lower than the rates from Windsor, just east across the river. It was recognized that if the rate from Windsor was reduced this would necessitate the scaling down of rates to intermediate points. So the question of the complaint advanced by the Toronto Board of Trade as to Montreal rates westbound versus Toronto rates eastbound became interrelated with the complaint of the Canadian Manufacturers' Association as to international rates.

The traffic from the Detroit River was affected both by the Official and by the Canadian Classification. It was impossible to harmonize these, as they are built up in a different manner. What was done was to take the existing first-class rate from Detroit and to scale down the rates from Canadian points eastward accordingly; and it was then directed that the rates from Canadian points on the Detroit and St. Clair River frontier to all points east to the Atlantic and north to the Ottawa River should in no case exceed the rates from Detroit and Port Huron.

Direction was given that the "town tariffs" then in existence be reduced so as to place them all on the same mileage scale. The scale directed to be adopted covered up to 560 miles. It may be summarized as follows:

(1)	Up to 5 miles,	8 cents per 100 lbs. 1st class.								
(2)	6 to 20	miles,	2	cents	increase	for	each	five -	mile	step
(3)	21 to 80	"	2	"	"	"	"	ten	"	"
(4)	81 to 110	"	2	"	"	"	"	fifteen	"	"
(5)	111 to 200	"	2	"	"	"	"	twenty	"	"
(6)	201 to 440	"	2	"	"	"	"	thirty	"	"
(7)	441 to 560	"	2	"	"	"	"	forty	"	"

It was found necessary in making this rearrangement to re-group the existing rate points. The mileage pro-

vided for in the scale covered as far as Montreal. Beyond Montreal to Quebec the through rates from the territory between Windsor and Toronto and from the northern portion of the westerly peninsula of Ontario were to be built up by the addition of arbitraries.

The readjustment thus brought about represents roughly a reduction of 25 per cent from the standard rates up to 500 miles. The effect of the reduction goes further. It is not limited to the "town tariff" points alone. From and to intermediate points the "town tariff" applies until the standard tariff becomes lower.

67. *Town tariffs in the east.*—East of Montreal in the Province of Quebec and in the provinces of New Brunswick and Nova Scotia "town tariffs" also exist. These cannot be expressed in terms of any general percentage of the standard tariff.

In the westward movement from eastern Canada to the Northwest there is not only the all-rail movement, but also the lake and rail movement, which is on a lower basis to meet the lake competition. Goods may be carried all-rail or by lake and rail, or between certain points by all-water. For example, the all-rail rate fifth class from London to Sault Ste. Marie is 35 cents. By lake and rail it is 25 cents. In the movement by water by independent water carriers Sault Ste. Marie and Fort William are blanketed on bar iron and other iron and steel commodities with a rate of 17½ cents. The railways have met this competition by quoting a lake and rail commodity rate of 19½ cents to the same points.

While on the lake and rail movement through rates are worked out by the railways and their connecting water carriers, the independent boat lines—for example, the Inland Lines, the Canadian Lake Line, and the Merchants' Mutual—do not make joint rates with the

railways. They base on the same rates from Fort William or Port Arthur as the lake and rail lines do on traffic beyond. While, of course, from December to the end of April the lake route is closed, it is contended by the railways that its competitive effect is pervasive throughout the year. For goods can be and are shipped forward during the navigation season to the head of the lakes, where they are warehoused and shipped out from time to time during the winter.

68. *Some objections overcome.*—When distributing business developed in Winnipeg there arose complaint of competition from eastern Canada. Take a point, say, 100 miles west of Winnipeg, and the situation arose that the through rate on a carload of groceries from Hamilton to this point would be less than the rate from Hamilton to Winnipeg and the local out. As an outcome of much discussion and agitation, Winnipeg was given the "traders' tariff" arrangement. Under this tariff, merchandise, when shipped into Winnipeg from an eastern point and warehoused, paid, when shipped out, the balance of the through rate from Winnipeg. That is to say, to a point 100 miles beyond it would get the same rate treatment as if the shipment had moved direct from, say, Hamilton to the point 100 miles beyond. There had, however, to be paid in connection with the stop-over the cartage and handling charges. These averaged 8 cents per 100 pounds on the first four classes and 6 cents on the fifth class. Under this arrangement 95 per cent of the freight westbound from Winnipeg moved on this tariff. Subsequently, Brandon, Regina, and Calgary were given the same arrangement. In 1907, this tariff arrangement was found by the board to be discriminatory, since it was limited to certain places, consignors, and consignees.

The arrangement which was next put in and which is still in force is one whose basis is affected by the readjustments in rates brought about by the subsidy given to the Canadian Pacific under the Crow's Nest agreement and by the Canadian Northern, as a result of arrangements with the Province of Manitoba. These arrangements, which are somewhat complicated, are set out in the Regina Rate Case. Put in a summary way, the effect is that in Manitoba the "town tariffs" are 30 per cent below the uniform mileage tariff of 1894, while in Saskatchewan and Alberta they are 22½ per cent, and in British Columbia 15 per cent below.

The following list sets out practically all the "town tariff" points in Canada:

NOVA SCOTIA AND NEW BRUNSWICK.

Halifax, N. S.
St. John, N. B.
West St. John, N. B.
St. Stephen, N. B.
Woodstock, N. B.
Fredericton, N. B.
Campbellton, N. B.
Edmundston, N. B.

QUEBEC.

Montreal and its grouped terminals.
Lachine, Que.
Dominion, Que.
St. Johns, Que.
Iberville, Que.
St. Hyacinthe, Que.
St. Rosalie Jct., Que.
Sherbrooke, Que.
Lennoxville, Que.
Quebec, Que.

ONTARIO.

Aurora.
Barrie.
Belleville.
Berlin.
Bowmanville.
Brantford.
Bridgeburg.
Brockville.
Chatham.
Cobourg.

ONTARIO.—*Continued.*

Collingwood.
Cornwall.
Depot Harbour.
Deseronto.
Doon.
Dundas.
Elora.
Fergus.
Galt.
Gananoque.
Guelph.
Hamilton.
Hespeler.
Ingersoll.
Kingston.
Lindsay.
London.
Meaford.
Merritton.
Midland.
Napanee.
Newmarket.
Niagara Falls.
North Bay.
Orillia.
Oshawa.
Ottawa.
Owen Sound.
Parry Sound.
Paris.
Peterboro.
Petrolia.
Port Dalhousie.
Port Hope.
Prescott.
Preston.
St. Catharines.
St. Marys.
St. Thomas.
Sarnia.
Stratford.
Sudbury.
Sault Ste. Marie.
Thorold.
Toronto.
Trenton.
Walkerton.
Waterloo.
Welland.
Welland Junction.
Whitby.
Wiarton.
Windsor.
Wingham.
Woodstock.
Port Arthur.
Fort William.
Westfort.
Kenora.
Keewatin.

MANITOBA.

Winnipeg.
St. Boniface.
Brandon.
Portage la Prairie.

Saskatchewan.

Regina.
Moose Jaw.
Yorkton.
Saskatoon.
Battleford.
North Battleford.
Prince Albert.

Alberta.

Calgary.
Weyburn.
Camrose.
Lethbridge.
Strathcona.
Edmonton.
Medicine Hat.

British Columbia.

Fernie.
Cranbrook.
Nelson.
Rossland.
Revelstoke.
Westminster.
Vancouver.
Victoria.

69. *Export and import rates.*—In England the question of export and import rates has engaged much attention. In 1908, the Railway and Canal Commission, in the Spillers & Bakers Case, recognized that a low "shipment" rate was necessary to obtain traffic. It was considered impossible to raise this rate, and the dissimilarity of circumstances did not warrant a comparison of the higher domestic rate with the lower export rate. A briquette manufacturing firm claimed it was unduly discriminated against, since it paid the domestic rate on its raw material, while the manufactured product came into competition abroad with coal carried on a low export rate. Here, again, the commission upheld the principal of export rates, and further found that the railway was under no obligation to regulate its charges with reference to the ultimate competition complained of.

70. *Low import rate justified.*—While in general there has not been great objection to an export basis lower than that of the domestic rate, England being an

exporting nation, there has been in England much objection to low import rates which it has been considered bear unfairly on the domestic trade which pays the higher rate. In the United States the Interstate Commerce Commission, in dealing in the Alabama Midland Case with a lower rate basis on the rail portion of the import rate than was granted on the same portion on a domestic movement, held that the circumstances were not dissimilar, and that the difference in treatment was, therefore, discriminatory. The Supreme Court, however, overruled this decision, holding in effect that the import rate was a water-compelled rate throughout, and that the commission had not given due consideration to the competitive factors affecting the rate.

71. ***Problem in Canada.***—On the export trade in Canada's staples there comes into operation the competition of markets. What Canada's grain can pay depends upon the conditions in the world market, and the rate must be adjusted with reference to these conditions. Further, the rail portion of the export rate is concerned only with a portion of the total haul, while in the case of the local movement it has no movement beyond. It has been ruled by various regulative bodies that a division of a through rate is not a necessary measure of the reasonableness of a local rate. Similar reasoning is applied to export rates.

In the export movement, commodity rates are quoted on many staple articles. For example, there are export commodity rates to St. John on cattle, sheep and hogs, grain (all-rail), grain (lake and rail), apples, pears, lard, cured meats. From Montreal there are export commodity rates on the same articles and, in addition, on pine and larch lumber.

The board has recognized that there is, within reason,

a justification for a lower basis on export than on domestic business. It directed in 1910 the reinstatement at Montreal of export rates on lumber, lower than the domestic rates. By an order of 1911 it directed an extension of the territory from which these reduced export rates on lumber should apply. While the export rates via Montreal have varied, they have generally been held down by the New York rates as a maximum. It was recognized in 1905 that the existing practice of computing export rates from Ontario points on the basis of percentages of the existing export rates from Chicago to New York was not unreasonable, and a direction was given as to the groupings and percentages that should apply in the case of all export traffic.

72. *Import rate anomalies.*—While import traffic on a low import rate basis does not elicit disapproval at a terminal point, say, Vancouver, anomalies in connection with it are complained of at interior points. That is to say, if a merchant at Calgary finds that the rate from Great Britain is lower than the rate from Montreal, he considers that he is being discriminated against. But in a particular case the railway rejoined that the ocean rate on bar iron from Europe to Vancouver is 35 cents per 100 pounds. The rail rate on this commodity from Vancouver to Calgary is 91 cents, giving a combination of $1.26. At the same time the lake and rail rate (all-rail being higher) from Toronto or Montreal to Calgary is $1.31. If, then, the railway met the rate combination on Vancouver where water competition existed, an anomaly would be created.

Such an anomaly may exist in the case of an interior point like Kamloops. Heavy crockery packed in straw, in basket crates, obtains a low ocean rate because, since it packs solidly, it is really paying ballast. If the rail-

way makes a compelled rate to Vancouver on this commodity then the rate to Kamloops will be the rate to the Pacific terminal, plus the local rate back to Kamloops. To Kamloops, there being no water competition at that point, the rate would roughly be proportionate to distance. But if the rate to the coast, plus the local back, is less than the straight rate to Kamloops, the combination on Vancouver will naturally act as a maximum holding down the Kamloops rate. With greater efficiency of water competition at Vancouver, the effect of the compelled rate at the terminal will affect the rate situation still further east of Vancouver.

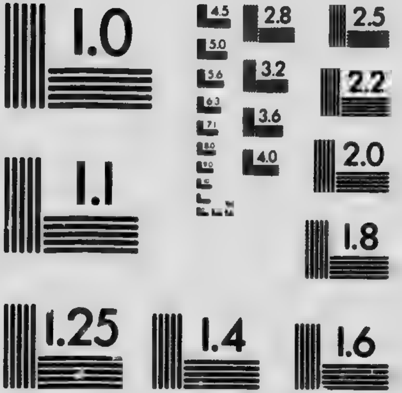
On a shipment of tea from Montreal to Vancouver complaint was made that, while in carloads the all-rail rate was \$1.40 and lake and rail \$1.33, there was a through import rate of 98 cents from British ports to Vancouver.

73. *Attitude of railways.*—The position taken by the Canadian Pacific, in explanation of this, was that the rate all-water from London to Vancouver by the China-Mutual—the Blue Funnel Line—was 73 cents, while by way of the Tehuantepec Railway it was 76 cents. Therefore, in quoting an import rate of 98 cents the railway contended that taking into full consideration such advantages as it had over the all-water route in point of despatch, it could not charge more than it did and get any share of the import business.

A merchant in London, Ontario, may complain that the rail rate he pays on goods from Montreal is higher than the rail rate for the same distance when the goods move on an import rate. He is of opinion that since the goods move over the same portion of railway in the same quantities and under the same operating conditions, any difference in treatment is discriminatory. The

MICROCOPY RESOLUTION TEST CHART

(ANSI and ISO TEST CHART No. 2)



railways rejoin that the import rate is dependent upon the conditions of traffic by way of the various North American ports. The rates through, say, New York, are affected by the amount of tonnage offering in Europe for New York and the greater density of traffic in the eastern states. New York, it is urged, is more favorably situated from the standpoint of attracting ocean tonnage than is Montreal. The rate fixed by way of New York will then, it is contended, fix the maximum which the shipment by way of Montreal cannot exceed. On shipments to Ontario points, the access afforded by United States lines spreads into Canada the effect of the United States import rate.

Through the import rate being thus fixed, the railways will further contend that if on account of the lesser amount of ocean tonnage moving to Montreal the ocean rate to that point is higher than to New York, then the Canadian railway participating in the import traffic must either shrink its proportion of the inland rate or forego the business entirely. In other words, it is contended that it is not through any desire to discriminate against the Canadian domestic movement that the lower import rate basis is given, but because it will not stand any higher rate.

74. *Transit arrangements, stop-off, etc.*—In the tariffs are to be found arrangements which permit the raw material to be worked up in whole or in part before the rail-journey is completed. The board has recognized in the case of sugar beets and of pulp wood, for example, that the railway may take into consideration, in fixing the rate basis inwards on crude material, that it carries out the finished outcome of this raw material. It may, therefore, adjust its rates on the basis of a continuous service instead of the basis of two distinct services.

The milling-in-transit privilege is probably the best known of these manufacturing in transit arrangements. With the expansion of the railway system of the United States in the early seventies, there came readjustments in flour milling. For example, a new milling industry began to develop in Wisconsin and in Minnesota. Hitherto, the important flour mills had been located in the east and in the middle west. With changes in agricultural conditions, the established mills had to look further west for wheat. The new western mills were in a position to obtain their grain locally, in the first instance, by wagon haul. The railways competing for their business gave low rates eastbound on the milled product. The rates were further held down by the proximity of these mills to the lakes.

At the same time the established mills further east were apparently faced by a cost which, as compared with the costs of the western mills, would be prohibitive. For it appeared as if the eastern mills would have to stand the rate of the relatively long haul on their wheat in and the rate on the flour out. To meet this condition, the railways developed the milling-in-transit arrangement whereby the shipment of the wheat in and of the product out were treated as a continuous movement on one rate instead of two local movements on two local rates.

This transit arrangement, which is mutually advantageous, since it enables the miller to draw upon wider areas for his supplies and insures the railway the outward movement, is now widespread. It is taken advantage of in western Canada. It is taken advantage of extensively in eastern Canada. In the case of grain, flaxseed, and grain products originating in the Northwest and destined to Fort William, Port Arthur and Westfort grain shipped to millers on the direct line

of transit will be charged the current local grain rate in.

To take advantage of the transit arrangement, the milled product has to be shipped out in six months. If so shipped, it goes out on the balance of the through grain mileage rate from the point of origin to final destination, plus one cent per 100 pounds for terminal services at the milling point.

A similar arrangement is made when the grain is shipped to elevators for clearing or storage. In the adjustment of the rate there is refunded to the shipper the difference between the local rate in and the through proportional rate for the inbound haul.

It is not permissible to reship one kind of grain or its product outwards against an inward billing for another kind of grain. That is to say, wheat or its product may not be reshipped against inward billing for oats, or vice versa.

Under grain products are included barley, cleanings, breakfast foods or cereals (uncooked), bran, buckwheat, buckwheat flour, chopped feed, cornflour, cornmeal, flour (made from grain only), grits, groats, linseed meal, malt, middlings, millfeed, oathulls, oatmeal, oilcake, oilmeal, peas (whole or split), rolled oats, rolled wheat, rye flour and meal, sweepings and screenings, shorts, wheatmeal. Malting is covered by the transit arrangement on the same general conditions subject to the further condition that the balance of the through rate will apply on the product outward only to the amount of 80 per cent of the weight of the barley covered by the inwards billing.

A stop-over is allowed on rough lumber for dressing, re-sawing or sorting and reshipment. Here, while a similar rate arrangement is permitted, the stop-over is

limited to thirty days. When re-sawing or dressing is performed, the outwards weight must not exceed the following percentages of the weights shipped into stop-off point: 95 per cent when re-sawn on the rough; 90 per cent when dressed only; 85 per cent when re-sawn and dressed.

In the tariffs will be found various recognitions of the principle of treating the consignment as a through movement, although it is stopped in transit for one purpose or another, there being some charge for such stop. The more important examples may be mentioned. Apples may be shipped to storage and inspection points for subsequent reshipment. Beans may be held for cleaning and reshipment. Coal and coke may be reshipped in the same car if there is no breaking of bulk. Provision may be made for completion of carloads of hogs, or for feeding in transit.

75. *Changing destination in transit.*—While the contract for carriage is in reality concerned with the movement between the points set out in the bill of lading, the railways arrange for changing destination. This is of advantage because when the commodity goes forward it may not be known what is the best market for it; or when it is in transit, information as to a better market than that to which it was originally consigned may be obtained. On payment of $3.00 per car for each change of destination in transit, the railway will on request attempt to change the destination. In addition, the difference between the rate as paid and the rate to ultimate destination has to be paid.

In the event of a car being hauled out of the direct line from shipping point to ultimate destination, a charge of one cent per ton per mile, with a minimum of twenty miles, will be made for such extra haul. But in no case

must the total charges exceed the local rate to and from the point at which the change of destination is made, plus the charge for change of destination. The extra services and responsibilities this change in transit places on the railway are: there must be a telegram to the agent at the point where the change is to be made; the agent at that point must be on the lookout for the car, and this may require his going to the van of each freight train that passes in order to examine the conductor's record; when the car is found it must be rebilled and the waybill must be checked; the amount of charges must be verified and the Auditor of the Department informed; the car must be cut out of the train and put to one side, thus necessitating switching, etc.; the car must be picked out and put on the new train; the railway company must assume the legal responsibility of deciding whether the party who asked that the destination of the car be changed owns the merchandise and has the right to deal with it.

76. *Concentration rates.*—A concentration or assembling arrangement is of advantage to shippers. A part carload of horses, cattle, hogs or sheep charged at carload rate and weight from original point of shipment to final destination may be stopped, on the direct run, in transit, for completion of load for an additional charge of $3.00 per car for each stop. In the case of poultry, the charge is $5.00. In both of these cases, if there is an out-of-line haul, there is, in addition to the stop-off charge already mentioned, a charge of one cent per ton per mile, with a minimum of $3.00.

Butter, cheese, and eggs when shipped to cold storage points, in less than carload quantities (in the case of cheese 500 pounds or over) for cold storage, branding or inspection and reshipment, have a special

rate basis in. Such commodities where exported are given the advantage of the export rate from original shipping point to the port of export, plus 2 cents per 100 pounds for stop-over. In the case of cheese, this arrangement applies only if it is shipped into and out of the cold storage point in carloads.

77. *Special rate reductions.*—At times, the railways carry pedigreed stock at half rates. This is regarded by the railways as a matter of concession, not of right. The smaller roads when asked for such an arrangement, reply that their traffic will not warrant the reduction.

Seed grain is carried at reduced rates. This concession is not, however, a continuous one. It is published from season to season, as crop conditions seem to demand it.

With a view to facilitating settlement, the railways in the Northwest carry settlers' effects, in carloads, at one-half the ordinary sixth-class tariff rate which would apply under the classification. The Canadian Pacific restricts this concession to settlement on its own lines. The Canadian Northern does not so limit the concession.

78. *Cartage service.*—Beginning about 1855, the Canadian railways performed cartage service. Down to 1892, there was no charge by the railways for the service. In 1893, because of the increase of the cost of cartage, the railways added to their rates in the case of the first four classes of the classification $1\frac{1}{4}$ cents per hundred pounds, and to the fifth class 1 cent. In 1903, the charges were equalized by making the additional amount so collected $1\frac{1}{2}$ cents per hundred pounds for the five classes. In 1908, $\frac{1}{2}$ cent per hundred pounds was added. This made the charge to the public 2 cents per hundred pounds, with a minimum of 15 cents on smalls.

At the same time, the railways were paying the cartage companies performing the service in Montreal, for example, 2½ cents per one hundred pounds. In 1912, application was made to the board to permit the charge to the public as set out in the tariffs to be raised to 3 cents per 100 pounds, with a minimum of 20 cents on smalls. Evidence was submitted by the cartage companies as to the great increases in their cost of operation. Permission was given to the railways to collect 2½ cents per hundred pounds from the public, the smalls charge remaining unchanged.

The cartage service has been performed in eastern Canada by the Dominion Transport Company and the Shedden Company, the railways having made contracts with these companies. It was, of course, open to the individual shipper to perform the cartage service to and from the railway sheds. In practice, however, it was found that in the bulk of the business, it was more expeditious, as well as more economical, to have it performed by the cartage companies. The cartage companies have made and accepted deliveries of outbound and inbound package freight at different shed doors, thus aiding the railway in the matter of distribution of freight within the sheds, and consequent increase of expedition in handling. Bills of lading are signed by the teamsters of the cartage companies.

The railways still contend that the increased cartage charge which was allowed in 1912 does not sufficiently reimburse them for the payments they have to make to the cartage companies. Upon the reissuance of the class tariffs to western points brought about by the board's decision in the Regina Rate Case, the rates in western Canada were published exclusive of cartage, i. e., shippers and consignees were obliged to furnish their own

cartage. At the same time, an arrangement was made by the railways whereby, in respect of the service performed by designated cartage companies, they undertook to bill forward for collection from the consignee the cost of cartage on outbound business. The railways in adopting the discriminatory practice of limiting this concession to designated transfer companies at the various points, stated that it would be impossible to let all the isolated movements by private conveyance participate in it, because of the additional bookkeeping expense it would entail. The consignees objected to the railway billing forward the cartage charge. They said if it is an expense properly attachable to the sale of the goods let it be covered by the invoice. While it was a convenience, it was not in terms of the Railway Act a railway service. A consignee objecting to the payment of a charge so advanced could not have been compelled in a court of law to pay it. This arrangement with the railways was terminated at the end of 1913.[1]

Shippers and consignees in eastern Canada will have to make their own arrangements as to cartage, the railway no longer being an intermediary.[2]

In the case of cartage in the United States, as, for example, in Cleveland, the bulk of the work is done by regular organized cartage companies, under contracts with shippers and consignees who give carriers written instructions or orders to deliver all freight consigned to them to a specified cartage company. The cartage charges are on a higher basis than has been in force in Canada.

[1] Since the above was written the railways have agreed to continue the practice of advancing cartage charges, it being understood that this confers no legal obligation, under the Railway Act, on the part of the consignees to pay the charges so advanced.

[2] Since the above was written the railways have agreed to continue the practice of making cartage contracts with cartage companies provided all the expense of the cartage is borne by the shippers or consignees.

CHAPTER VI

PASSENGER RATES

79. *Water and port competition in passenger traffic.*—Passenger rates are not affected by competition of markets and only to a slight extent by competition of ports. While the development of facilities for foreign travel by way of a particular port may attract passenger traffic by rail from one route to another, this depends upon the preference of the passenger, not on mere cheapness of route. While to the ton of freight the cheapness of the rate is the thing, in the case of the passenger there enter in conditions of personal comfort, scenic attractions of the route, and the like, which may more than outweigh a lower rate afforded by a shorter mileage to a particular port.

Water competition and its concomitants which, in certain phases, connect themselves with competition of ports, are also much less important here. The competition of the Great Lakes attracts tourist traffic. But the business man who has to meet some business engagement seeks the more expeditious rail route. Low-grade bulky freight is attracted by water because the rate is more important than the time of transit. Within limits, the time of transit is more important to the business man than is the rate.

In freight business, ocean competition connects itself with port competition when a particular port may, by attracting a larger volume of tramp tonnage, afford a

cheap, slow, and perhaps roundabout route for freight. But here, again, on the ocean movement, time and directness of route are more important to the passenger.

80. *Distance important factor.*—Distance affects passenger rates much more directly than it does freight business. Reference has been made to the extent to which circuitous routes may enter into the transportation of freight. But in the movement of passenger business between New York and New Orleans where the most roundabout route is 58 per cent longer than the most direct, normally passenger travel between these two points will seek, if not the shortest, at least the shorter routes. For if the longest route is taken, there will be such an addition of the time to the journey that unless the rate is very much reduced the additional expenses of travel, meals, sleeper accommodation, etc., will more than take up the rate advantage, if any. Again, in the movement from the eastern states to San Francisco by a broken rail and water route by way of Vancouver as compared with a direct all-rail route, while the former may, on account of the magnificent scenery of the Canadian Rockies, attract the tourist, it is the latter which attracts the business man.

81. *Time element.*—Throughout passenger travel, the time element is much more important than the rate element. But this must be modified by the fact that if the time taken in transit is not too great, a slower and more circuitous route may within rather narrow limits compete with a more direct route.

This is recognized in the transportation field between Chicago and New York. The high-speed trains are excess fare trains. Between Detroit and Buffalo, the Michigan Central has its high-speed excess fare train, the "Detroiter." The Grand Trunk, because of its

longer line between Chicago and New York, has a differential rate of $16 first-class, as compared with the $18 rate of the Michigan Central and other standard lines. The excess fare trains are run on the principle of a premium for higher speed, the premium being repaid if the time is not made.

It is within the bounds of reason to say that normally the excess fare is not sufficiently high. The excess fare train, on account of the limited number of cars it can haul and the superior luxury it affords its passengers, is more costly than the lower speed train. Possibly a railway may feel that it can in a way regard this difference as being properly chargeable to the advertising which such a service gives the railway. But the additional costs are not limited to the train movement alone. The high speed means greater expenditures on track and equipment than would be necessary with more moderate speed. To the extent that it does not meet its proper share of this expense the other, slower methods of travel must pay more than their proper share. The superior facility of the excess fare train should be compensated for by an excess fare commensurate with the increased cost, not merely by a nominal penalty.

82. *Expensive stations.*—In the development of passenger business, more expensive passenger stations are called for in the larger cities. The expense of these may be measured in millions of dollars. But when measured in terms of passenger traffic, the terminal expense per unit is relatively small. The expense of the passenger terminal may be considered as roughly proportional to the business in and out of the point it serves. It is not necessarily increased in expense by the matter of a through movement. In freight business, the constantly expanding terminals, while in part attributable to local

conditions, are also attributable to general increase in the business of the country.

The congestion of freight facilities, which Montreal at times faces, is not due simply to the business local to Montreal; the export business is also an important factor. Passenger business, for example, at Winnipeg, while affected by the movement of settlers through, is roughly proportioned to the business local to Winnipeg. In older sections which have been longer settled, this holds in greater degree. But when the Canadian Pacific acquired land at $1,000 per acre at Transcona for terminal purposes, this was due to the general expansion of the freight business of the Northwest. Since 1904, the Canadian Pacific has rebuilt and remodeled everyone of its freight terminals from Fort William to Vancouver. The freight business requires a large amount of service in terminals, all of which takes time, space, and expense. The passenger loads and unloads himself. In purchasing his ticket, he classifies himself in point of service.

While the terminal expenses tend to become of increasing importance in freight business, in passenger business it is the costs of haulage, the line costs, which are more important.

83. *Other factors.*—While the ton-mile rate, because of conditions already referred to, tends to decrease as the distance increases, the passenger costs are much more constant. Consequently, the distance factor is much more important in passenger business. Again, disturbing conditions of competition such as are present in freight business are much less in evidence here.

The passenger fare for a journey is a multiple of rate and distance. That is to say, the principle of equal mileage rates without a tapering of the rate as the dis-

tance increases may be more readily applied here. The actual rate applied may be modified by return trip rates, commutation rates, excursion trip rates, etc. So it does not happen that the rate charged is an exact multiple of the standard rate. It is computed that in Canada not more than 20 per cent of the passenger travel is carried on one way first-class tickets based on the standard rate per mile.

On long haul business, modifications of the distance basis and entrance of the grouping principle in a modified form may be found. From Montreal to Vancouver, the first-class limited fare of the Canadian Pacific is $72.50, while from Ottawa, a distance shorter by 115 miles, the rate is only $1 less. On round-trip tourist tickets grouping or blanketing may be found to a greater extent. Thus the nine months' round trip tourist rate from Ottawa to Vancouver is $132.10. This rate applies from Finch, Winchester, Prescott, and Kingston.

In the freight business, the movement is a one-way one. That is to say, the transportation is concerned only with the movement of the commodity to the market. The cars must be taken back either empty or filled with some other commodity. But the passenger business is better balanced. A man goes from his home town to a near-by town on business; in a short time he returns. In the absence of alternative routes, the passenger business which goes returns. Of course this is subject to the exception which arises in the case of incoming settlers in the Northwest. But this is only a momentary disturbance of the balance. Once their economic condition improves, they also begin journeys away from home with their consequent return. While there cannot, in the nature of things, be a perfect balance of mileage at a given

time, there is proportionately less empty mileage due to a lack of return business.

While freight business may to a considerable extent be stimulated by reduced rates, this does not hold true to the same extent in passenger business. The energetic advertising of the passenger department does, indeed, stimulate a demand for tourist, transcontinental, colonization, round-the-world traveling. But the extent to which this can be developed depends upon the income of the individual. There are not only the incidental expenses of train travel, but the hotel and other expenses along the way are also large. The extent to which, then, there is a response to such methods of stimulating travel depends on the opinion of the individual as to some business gain to be obtained, or upon his surplus income. Concessions in rate are apt to have the most noticeable effects in connection with commutation business on a relatively short haul movement. The commutation rate permits the business man to live some distance out of the city. His family thus becomes dependent upon train travel. The excursion rate stimulates holiday travel. But, here again the matter of surplus income is a determining factor.

84. *Passenger business in practice.*—Comparison between freight and passenger business is natural because they are the two main sources of railway income. While they are not, because of inherent differences, exactly comparable, they are of interest when considered jointly, because they are complementary. A freight traffic man may look askance at the advertising expenses of the passenger department. The passenger man will respond that while it may be difficult to point out the exact return from such advertising, it not only creates passenger traffic but also aids in attracting freight busi-

ness. It may be too broad a generalization, although it is sometimes so stated, that the line a man travels over is the line he will route his freight over. Whether or not he does so in practice depends on the matter of freight facilities. But if a man is favorably impressed by the passenger service he receives, it has some effect on his shipping instructions. Mr. W. P. Hinton, General Passenger Agent of the Grand Trunk Pacific, who has had a diversified experience both in freight and passenger business, put the matter, from the passenger man's standpoint, very aptly when he said:

> Under the Railway Act of Canada, transportation companies are permitted to give special fares and concessions to land settlers, agricultural exhibition managers, exhibition and commercial travellers. The ultimate results are reaped by the freight department, owing to the settlement of the land, the improvement of crops, and the additional sale and distribution of merchandise and supplies.

85. *Passenger and freight receipts compared.*—Reference to certain phases of the freight business which have already been made show how much more important freight business is in terms of railway receipts than passenger business. In the new developing and more sparsely settled sections a preponderance of freight business is always found. While in England every \$100 of revenue is divided between passenger and freight business in the ratio of \$47 to \$53, in Canada the ratio is \$28 to \$72. In the United States, a somewhat similar ratio is to be found, although in the more densely settled eastern states the ratio is \$44 to \$56. Progressive increase in density of population may, other things being equal, be expected to affect passenger business.

While the receipts, and work done therefor, in freight business may be expressed in ton-mile earnings, the pas-

senger mile, which is also a work distance unit, is used to measure passenger earnings. While the ton mile is made up of two exact quantities, passenger mileage is made up of one inexact and one exact quantitative index.

In Canada, in the period 1910–1912, the number of passengers carried increased by 14.6 per cent, while the receipts increased by 23 per cent.

The earnings per unit in passenger and in freight business in Canada for a period of years are of interest:

	1907	*1908*	*1909*	*1910*	*1911*	*1912*
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
Average receipts per passenger per mile.............	1.911	1.920	1.921	1.866	1.944	1.943
Average receipts per ton per mile....................	.815	.723	.727	.739	.777	.757

In this period, receipts per passenger per mile increased 1.6 per cent, while freight receipts per ton mile decreased 8.4 per cent.

86. ***Density of traffic.***—In freight business, an index of increasing business is freight density, that is, tons hauled one mile per mile of line. In passenger business, a similarly constructed index, viz., the number of passengers carried one mile per mile of line may be used. For the period 1907 to 1912 the figures for Canada are as follows:

	1907	*1908*	*1909*	*1910*	*1911*	*1912*
Passenger density....	90,921	90,654	84,342	99,742	102,597	108,888
Freight density......	518,486	564,378	545,991	635,321	631,829	731,776

In this period, the mileage on which the above averages are struck increased by 18.6 per cent; the passenger density increased by 19.7 per cent, while the freight density increased by 37.8 per cent. While here again the bases on which the percentages are computed differ, the calculation shows in a general way that pas-

senger density is increasing in the same ratio as mileage, while freight density is increasing twice as rapidly.

87. *Effect of economic depression on passenger business.*—In passenger business, one bad year by its curtailment of income affects business in succeeding years. While only 500 miles of railway were constructed in 1908, the freight business of 1908 showed a sharp increase over 1907. It is true that it took until 1910 to get back to the normal situation. But in the case of passenger business, the curtailment was felt most after the depression year. Passenger business is more readily affected by financial disturbances than is freight. Financial depression may, through necessity of the producer, stimulate freight traffic. People do not have to travel; they have to be clothed, fed, housed, and warmed.

A striking difference exists between freight and passenger business, both in respect of the load and the haul.

	1907	*1908*	*1909*	*1910*	*1911*	*1912*
Average freight haul in miles..	183	206	197	211	200	218
Average tons per train........	260	278	278	311	305	325
Average passenger haul in miles.	64	61	62	69	70	71
Average passengers in train....	56	54	51	59	60	62

The average freight haul has increased by 17 per cent, while the average passenger haul has increased by 10 per cent. The percentage comparison is still more to the advantage of the freight business, since it is made on a larger base.

While railways have in the freight business been able to haul more cars behind an engine and get more into the cars, the conditions are different in passenger business. For 1912, the freight receipts were 230 per cent of the passenger receipts, while the freight engine mileage was only 137 per cent of the passenger engine mileage. Putting the matter another way, in freight business an

engine earned $2.60 per mile, while in passenger business it earned only $1.60 per mile.

88. *Capacity of cars.*—The economies of heavier loading are not available in the passenger business. Although the Great Northern was at one time credited with attempting to introduce into its passenger business the same principle it used in its freight business, viz., maximum loading, it is not a principle which will work. It is true that in India and Japan there are about five times as many passengers on a train as in North America. But such conditions cannot be obtained here. Where time is unimportant and money all important, maximum loading may be obtained. In India, the cheaper class passengers will begin to assemble hours before the train is scheduled to start. In other countries, passenger trains must move not only at regular times, but also with an eye to the general convenience of travelers. A new train may be put on to develop business. It takes not far from six months to prove its usefulness and profit. With the frequent service which highly developed passenger business demands, the average loading per train is low. The standard first-class cars of the Canadian Pacific seat from 70 to 86; the more recently constructed cars accommodating the latter number. The 62 passengers accommodated by the average train could be handled in one car, with space to spare. While the traveler has his mind concentrated on the discomforts of overcrowding which he at times is subjected to, on the average three-fourths of the seating capacity in the train is unoccupied.

It is true, however, that the average is to some extent held down by the travel in sleeping cars and in parlor cars. The ordinary maximum carrying capacity of a sleeping car is twenty-seven. While sleeping-car move-

ment and parlor-car movement do indeed hold down the average, the effect is not as great as might be anticipated. In 1909 only 2.91 per cent of the total number of passengers who traveled on the Canadian Northern were carried in sleepers. For the same year, the figures for the Grand Trunk were 3.25 per cent in sleeping cars and 1.15 per cent in parlor cars. On the Canadian Pacific, the figures for sleeping-car business were 5.9 per cent, and for parlor-car business they were 1.2 per cent. But to carry in Pullmans and parlor cars 7 per cent of the total number of passengers meant that the mileage of these cars was 20 per cent of the total passenger car mileage. In part, this is due to such equipment being used on the longer hauls; in part, it is due to the lesser carrying capacity of each such car.

89. *"Dead" weight.*—The lesser average loading in passenger car business means an increase in tare. In passenger business, competition in service has led to increasing weight of car. This is especially noticeable in sleeping car traffic. West of Winnipeg, to and from Vancouver, there is a solid Pullman movement as there is between Chicago and the Pacific Coast of the United States. This has been characterized by the carriage of additional weight, observation cars, buffet cars, etc. The competition has been one in luxury and service, not in rate. The "Overland Limited," which has an excess fare of $10 on its run between Chicago and San Francisco, has in addition to observation car and club car the following additional services: barber and baths, valet, stenographer, ladies' maid, telephone, electric ventilation, telegraphic news service, stock and market reports. It may be argued that a lesser composition in point of luxury would have been a better business policy.

In Germany, calculating 13⅓ passengers as weighing

a ton, it has been computed that 93.75 per cent of the weight hauled is dead weight. Of course, passenger fares are not calculated on weight; but the computation is of some value as indicating where some of the cost of passenger business is to be found. In Canada, a first-class passenger car, with a maximum seating capacity of 86, has a dead weight of 52½ tons. A sleeping car averages 60 tons. Such cars are supplied with both upper and lower berths. Normally, the upper berths are in use only about one-fifth of the time. In the summer months, all the accommodation in a sleeping car may be taken up. At other seasons, there is often much empty space. Calculations made by the Canadian Pacific for certain winter months in 1910 showed in January of that year between Montreal and Toronto, which is a heavy passenger run, 88 per cent of the lowers and 29 per cent of the uppers occupied westbound; while eastbound the percentages were 86 per cent and 27 per cent respectively. For the month of March, between Toronto and Winnipeg, the percentages of occupancy were respectively 20 per cent and 14 per cent. In the same month, between Montreal and Vancouver, the occupancy westbound was 70 per cent and 34 per cent, while eastbound it was 59 per cent and 14 per cent.

The average passenger haul is kept down by the amount of suburban traffic, while in freight business the average haul has tended to increase because of the long haul of staple products. As interurban electric lines are developed, they will take more of this short distance traffic, with the result that the average haul will increase.

In general, the difference between freight and passenger business is much the same as the difference between carload and less than carload business. It is possible to handle freight in a wholesale way. Passenger

business has, except in the case of excursion and similar traffic, to be handled in a retail way.

90. *Passenger rates and the Railway Act of Canada.*—Passenger tariffs are classified as standard and special. Standard passenger tariffs may express the mileage they cover in the same way as in standard freight tariffs. Special tariffs specify the passenger tolls to be charged when such tolls are lower than the standard. The requirements as to the approval of standard passenger tariffs are the same as in the case of standard freight tariffs. The requirements in regard to the filing and coming into force of special passenger tariffs are the same as in the case of special freight tariffs, except that the public notice is limited to three days.

The board is also given a wide discretion based on "the exigencies of competition or otherwise" to determine, notwithstanding the provisions of the statute, the time or manner within and according to which publication of any special tariff is to be made.

The railways may grant free or reduced rates to the Dominion, any provincial or municipal government, fairs and exhibitions in connection with exhibition thereat, to charitable societies and the necessary agencies of such institutions in connection with the carriage of destitute or homeless persons.

In defining the services just set out, the word "traffic" is used in the Railway Act. This covers both passenger and freight business.

Railways may issue mileage, excursion, or commutation rates, and may carry at reduced rates immigrants or settlers and their effects as well as any member of any organized association of commercial travelers with his baggage. They may carry at free or reduced rates their own officers and employees, or their families,

former employees of any railway, members of the provincial legislatures or of the press, members of the Interstate Commerce Commission of the United States, their officers and staff, with baggage and equipment. The railways may also carry free or at reduced rates such additional persons as the board may approve or permit. Exchange of free transportation between the principal officers of railways is permitted in respect of the carriage of their officers and employees and their families, or their goods and effects.

The statute also provides for the free transportation as a matter of right of members of the Senate and House of Commons, the members of the board and such officers and staff of the board as it may determine.

91. *Standard rates in effect.*—In 1907 the board issued an order requiring the Canadian Pacific and the Grand Trunk to reduce their standard rates east of the Calgary and Edmonton Railway to 3 cents a mile. At the same time the other railways were circularized to see whether their condition would stand the reduction. Subsequently, the Canadian Northern reduced its rates to the 3-cent basis. The rates west of the Calgary and Edmonton line remained at 4 cents. The justifiability of this difference in rate is involved in the Western Rates Case before the board.

Before the order was issued there were various standards on the different railways. On the Alberta Railway and Irrigation Company the standard was 5 cents. On the Algoma Central and on the Atlantic and Lake Superior it was 4 cents. On the Grand Trunk (with the exception of the line from St. Lambert Junction to Rouses' Point, a distance of 44 miles, on which the rate was 4 cents) the standard was 3⅓ cents. On the Canadian Pacific in Manitoba, the rate was 3 cents; while in

Saskatchewan and Alberta it was 3½ cents. A similar condition existed on the Canadian Northern lines in the West. On various sections of its lines east of the Great Lakes, the Canadian Pacific had rates of 3, 3⅓, and 3½ cents.

The present situation is that the general standard rate in British Columbia is 4 cents. The British Columbia Eastern Railway has a rate of 6 cents. In British Columbia and the Yukon, the White Pass and Yukon Route between the Alaskan boundary and White Horse has, under exceptional circumstances, a rate of 18 cents per mile. The Klondike Mines, a short railway in the Yukon, has a rate of from 15 cents to 20 cents per mile. East of the Calgary and Edmonton line, the following exceptions from the 3-cent standard are to be found: 4 cents—Algoma Central and Algoma Eastern, Kent Northern, Quebec Oriental, and Atlantic, Quebec and Western; 3½ cents—the Pass division of the Canadian Northern, Brockville, Westport & Northwestern, Temiscouata, Halifax and Southwestern, New Brunswick and Prince Edward Island, New Brunswick Coal and Railway Co.; 3⅓ cents—Dominion Atlantic. The mileage covered by these exceptions east of the Calgary and Edmonton line is 1,057 miles.

92. *Different kinds of passenger tickets.*—The different kinds of tickets in use on the Canadian Pacific may be taken as typical.

Mileage tickets in books of coupons covering 1,000 miles are issued east of Port Arthur. To be used on a train the coupons must first be exchanged for regular transportation. Ticket will not be honored if lost. On a first-class one-way ticket over more than one line, the company acts as agent and assumes no responsibility beyond its own lines. No stop-over is permitted, unless

especially provided for. An emigrant ticket is good only for five days from date of issue and for continuous passage. No stop-over is allowed. Conductors' tickets are issued on train at a charge of 10 cents over regular fare; this 10 cents being redeemable. Arrangements are also made to sell regular transportation on the train in the case of passengers getting on at flag, or non-agency, stations. The second-class ticket has the same general limitations as the first-class. Commutation tickets are issued: in 10-trip tickets, good for continuous passage only, with no stop-over; scholars' 46-trip tickets, good only for continuous trip with no stop-over, not good after date of expiration even if a portion is unused, and if lost, a duplicate will not be issued; 55-trip tickets with same conditions. In connection with commutation tickets, marketing stamps are issued. These may be used by suburban holders of 55-trip tickets. They provide for free transportation of 25 pounds of marketing in baggage car on one day. Marketing is defined as being perishable table food supplies. The tickets used between Nelson and Kootenay Landing, on the boat, have in addition to the usual conditions on first-class tickets, the condition that if the vessel's legal carrying capacity is all taken when the ticket is presented, then the company's liability is limited to the redemption of the unused portion of the ticket.

In the case of excursion tickets over two or more lines, such as the nine months' round trip to Pacific Coast points, in connection with which a series of options as to routes is permitted, provision is made for identification of the passenger. There is also a provision that the return portion of the ticket will not be good for passage unless validated by the agent designated for this purpose.

Traveling on freight trains is permitted in cases of

emergency and on special permission from the Superintendent of the Division, or any higher official. A release from liability in excess of $25 in case of accident has to be given. First-class fare is charged.

On all of the tickets issued there is the general condition that they are not transferable. The contract is a personal one as between the railway and the passenger. The sale of an unused portion of a ticket is in Canada, under R. S. C., 1886, Chap. 110, s. s. 7 and 8, a criminal offence. Provision is made for refund of unused portion of a ticket.

The tickets issued permit the carriage of 150 pounds of baggage for each adult, and 75 pounds for each half-fare ticket. The liability for loss of baggage is limited in the ticket to $100.

98. *Sleeping-car service.*—The sleeping-car service, which is now regarded as one of the necessary comforts of long distance traveling, has been connected with Canadian railway travel since Confederation. The first Pullman car, the "President," was put in operation on the Great Western Railway in 1867. It was a combination sleeper and kitchen with portable tables. When the Pullman Company operates the service under contract, as on the Grand Trunk, the arrangement is that if less than a sum set out in the contract is earned per car per annum, the railway pays mileage. When this guaranteed sum is reached no mileage has to be paid. When a certain fixed sum is exceeded then the railway receives one-half of the excess. In the case of the Canadian Pacific, the Great Northern, the Canadian Northern, and the Grand Trunk Pacific, the sleeping cars are operated by the railways themselves.

The rate basis of sleeping-car tariffs now in force is, east of Calgary, 6 mills per mile, with 20 per cent off on

upper berths. West of Calgary the basis is 8 mills per mile, with the same reduction for upper berths. The parlor car rates are based on a charge of 5 mills per mile east of Calgary, and $\frac{5}{8}$ per cent per mile west thereof.

94. *Classified passenger rates.*—While the matter of ability to pay is recognized in passenger rates, it is not organized in the same way as in freight business. Passenger rates average to a greater condition, than do freight rates, differing conditions of travel and of passengers.

The railway between Montreal and Lachine, which was opened in 1847, had the English style of compartment cars—the first, second, and third-class accommodation being supplied on the one car. The charter of the Grand Trunk, under the influence of the movement which culminated in England in the provision for "Parliamentary" trains, provided for a third-class service between Toronto and Montreal at the rate of one penny per mile. The Privy Council has stated that this provision is still binding.

But while in Canada it was apparently assumed that passenger traffic would be divided into three classes, such a development has not taken place.

The Railway Act does not provide for second-class fares. In eastern Canada second-class fares grew up as a measure of segregation in connection with the carriage along the lakes and the St. Lawrence of the lumber jacks, Indians, and others working as day laborers in the lumber industry. These rates were also used in connection with colonization. While they were put on on the original Grand Trunk line and were later met by the Canadian Pacific in competition, they are not in general use in eastern Canada.

Second-class rates from eastern to western Canada

were also put in to aid colonization and settlement. It is contended by the railways that the need for the second-class rates for this purpose has passed, as there is not any considerable movement of colonists from eastern to western Canada. Most of the movement, it is stated, is of immigrants from either Europe or the United States who move on special fares, in many cases lower than second-class. Second-class rates are in force from practically all points in eastern to all points in western Canada. As an example of the relation of the rates, the first-class unlimited ticket from Ottawa to Calgary is \$63.70; first-class limited, \$55.70, while the second-class is \$41.70. In general, from points intermediate to Winnipeg and Vancouver, there are no second-class rates east of Winnipeg. From Vancouver to Winnipeg the Canadian lines made a blanket second-class rate of \$40 to meet American competition. That is to say, from any intermediate point to Winnipeg this rate will apply until the first-class rate is lower, the latter then applying. In general, the railways take the position that second-class rates are an unnecessary survival.

So far as Canada and the United States are concerned, it may be said that in reality the Pullman is the first-class and the standard first-class car the second-class.

95. *Passenger classes in Europe.*—In Europe, the practice of having three classes and even four prevails. In England, over 90 per cent of the traffic moves third-class. The second-class has become of such minor importance in England that it has been dropped by some of the railways. In Germany, about 60 per cent of the traffic is third-class and 27 per cent fourth-class. In India, 97 per cent of the traffic is fourth-class. The following tabular summary as to the percentage of passengers by classes in various countries is of interest:

	1	2	3	4
Germany	.37	9.5	60.8	27.63
Switzerland	.94	14.47	84.39	.....
Belgium	3.00	10.19	86.74	.....
Norway	.1	7.3	92.6	.....
Sweden	.3	13.2	84.8	.....
Denmark	.6	12.7	86.7	.....
United Kingdom	3.1	6.2	90.7	.....
Italy	4.0	24.3	71.7	.....
France	5.9	31.7	62.7	.....
India	.3	1.4	1.0	97.3

The average haul in Europe as set out in the following summary is an index of travel conditions:

Germany	14.24	miles
Switzerland	13.0	"
Belgium	15.4	"
Norway	16.1	"
Sweden	16.6	"
Denmark	21.8	"
United Kingdom	7.8	"
Italy	25.0	"
France	20.5	"

As a means of reduction of passenger rates, the "zone" tariff system of Hungary, which was adopted in 1889, was hailed when it was introduced as a revolutionary change. As a matter of origin, it may be said that a New Zealander, Samuel Vaile, claims that this idea was first developed in his "stage" system of rate-making in 1882, and from it adopted in Hungary. The zone system was worked out on the basis of 14 zones which increased in size as the distance from Buda-Pesth increased. Within each zone there was a flat rate. In reality, instead of computing rates on a mileage basis, the zone or fixed number of miles was taken as the unit. The idea was to develop longer distance traveling. To the extent that it was successful in this, the shorter hauls were helping to pay for the longer hauls. The difficulties which have arisen as to journeys between points in two zones, such points being located near the bound-

ary of the two zones, have been such that various modifications have been introduced so that it now differs but little from the ordinary distance basis.

The zone system is used in connection with street railway traffic in the United Kingdom as distinguished from the flat rate system for the total distance which has been used in Canada and in the United States. In England, the Great Central adopted in steam railway travel in 1907 the zone system in the Manchester and Sheffield district. But the situation here was different from that in Hungary, for here the adoption of the zone system was concerned with short distance traffic which had to meet electric railway competition.

The methods of building passenger rates adopted on the Continent of Europe are, in general, of three kinds: the strict distance tariff, for example, in Germany, where the fare is so many *pfennigs* for each class for each kilometer traveled; the tapering tariff, as in Italy, under which the charge per kilometer decreases as the distance increases; the zone system, a tapering tariff under which the rates are the same to all stations within a particular zone, radically decreasing to the stations in the next zone. In Germany, the situation may be summarized by saying that the passenger pays, first, the ticket rate; second, an extra charge for use of an express train; third, a ticket tax; fourth, a fee for registering any baggage which is not carried by hand.

96. *Difficult to compare traffic here and abroad.*—In the case of passenger business, as in the case of freight business, it is practically impossible to make any comparisons of value between foreign conditions and conditions on this continent. There is lack of a common denominator. Where the average haul is short, it is apparent that a lower standard of comfort or conveni-

ence is required in connection with the accommodation supplied. When fourth-class traffic moves, as in Germany, it is characterized by a degree of discomfort whose only palliative is its economy. Whether traffic will move in third or even in fourth-class accommodation in a particular country depends on the length of the journey, the services and conveniences demanded, and above all on the general standard of economic well-being. From the standard of personal sacrifice, the payment by a native of India of .4 cents per mile on standard gauge lines, or of .3 cents on the narrow gauge lines, means a heavier deduction from his income than does the payment of 1.9 cents per mile by the average passenger in Canada.

CHAPTER VII

PRACTICAL PHASES OF RAILWAY BUSINESS

97. *Common law obligations of the railways.*—The common law which applied to the earlier, simpler forms of carriage has been made applicable, except in so far as it has been modified by statute, to the railway which is to-day the most striking example of the common carrier.

Hutchinson, in his work on "Carriers," has defined a common carrier as follows: "A common or public carrier is one who undertakes as a business, for hire or reward, to carry from one place to another the goods of all persons who may apply for such carriage, provided the goods are of the kind which he professes to carry and the person so applying will agree to have them carried upon the lawful terms prescribed by the carrier; and who if he refuses such goods for those who are willing to comply with his terms becomes liable to an action by the aggrieved party for such refusal."

It was decided, as early as 1769, that the common carrier was liable as an insurer for all goods which he undertook to carry. In general, the position of the common carrier at common law may be summarized as follows:

He was liable as an insurer of the goods, except in cases arising from—

(a) The act of God.

(b) The King's enemies.

(c) Act of public authority (e. g., quarantine).

(d) Act of the shipper.

(e) Inherent vice or defect in the goods.

All of these exceptions have been the subject of judicial definition. Items a, b, d, and e are, however, subject to the condition as defences that the negligence of the carrier did not concur therein. Negligence is in law the omitting to do something that a reasonable person would do, or doing something that a reasonable person would not do. While carriers are insurers as to freight, in the case of passengers they are liable only for negligence.

At common law, as soon as goods were delivered to the carrier, he had the risk of safe custody as well as the duty of carrying as directed. His liability did not rest on contract. However, it was in time established that he might, in consideration of a reduced rate, limit the common law liability by special contract, providing such contract was not (a) contrary to an express provision of law, (b) contrary to public policy, or (c) unjust or unreasonable.

When the contract of carriage of the carrier was terminated and the goods remained in the possession of the carrier as a warehouseman, he was no longer liable as an insurer, his liability for loss or damage being dependent on some negligence on his part being shown.

98. *Bill of lading and its conditions.*—As an incident of the necessary contractual relations of the shipper and the railway, there came into existence a bill of lading setting out the conditions of carriage and the liability of the railway thereunder.

The Railway Act of Canada provides that no contract, condition, or by-law, regulation, declaration, or notice limiting the liability of a railway in respect of the carriage of any traffic is to be valid unless approved by the board, and the board is empowered to define the extent to which such liability may be limited. While the railway is a common carrier, whose liability has been further

defined by statute, it may refuse to take any package or parcel which it suspects to contain goods of a dangerous nature, or may require the same to be opened to ascertain the fact. It is not permitted by the statute to carry goods of a dangerous nature, except in cars specially designated for that purpose. By an order of the board issued January 16, 1913, the regulations under which explosives might be received, forwarded, and delivered were defined.

In 1909, as a result of a series of conferences between representatives of the shippers and of the railways, a uniform bill of lading applicable to Canadian traffic was drafted and approved by the board. The provisions of this may be summarized under characteristic headings, as described below.

99. *Liability.*—In general, the railway is an insurer. The limitations of its liability are specifically set out. It is not liable in cases covered by the various common law defenses. Nor is it liable for loss, damage or delay due to differences in the weight of grain or other commodities caused by natural shrinkage or discrepancies in elevator weights, when such elevators are not operated by the carrier, unless the weights are evidenced by government certificates; nor for any loss, damage, or delay due to the authority of law, or of quarantine detention. It is liable only for negligence where goods are stopped in transit at the request of the party entitled to make such request; or where, in accordance with general custom, the goods are carried in open cars.

Where goods are carried at "owner's risk," the shipper assumes the risks incidental to transportation, the railway, however, being liable for negligence.

Except in case of diversion from rail to a water route, goods carried by water over any portion of the journey

are subject to the provisions of the statute and of the bill of lading; provided, however, that in respect of the water route the carrier is not liable for any loss or damage resulting from the perils of the lake, sea, or other water, or from explosion or any other cause not due to its negligence; or from other accidents of navigation or from prolongation of the voyage.

The company is not liable for loss or damage arising from any dangerous article.

Under the former bill of lading, the company assumed no liability off its own lines and acted only as the agent of the owner off its own lines. Under the present bill, in the case of a movement from one point to another in Canada, or where goods are carried on a joint tariff, the initial carrier is liable in respect of any loss or damage occurring on the lines of the connecting carrier, and from which such connecting carrier is not exempt under the provisions of the bill of lading, the onus being on the initial carrier. The latter is entitled to recover from the connecting carrier. The person aggrieved, however, retains any right of action he may have against the initial or the connecting carrier.

The American rule, as set out in the earlier decisions, was that for a carrier to be liable in respect of the portion of a through movement which was off its own line, there must be a positive agreement, either express or implied, extending the liability. In the English rule, the position was different. When the carrier accepted for a through movement to a point off its own line on the line of a connecting carrier, the first or contracting carrier became liable no matter by whom the goods might be lost; it became exclusively responsible and it alone could be sued by the aggrieved person. Any attempt to hold the subsequent or connecting carrier liable for this

loss, although it might have happened from its negligence or fault, would fail because of the want of privity or contract between such carrier and the injured party. It was, of course, open to the carrier to safeguard itself by special contract.

When the carrier limited by contract its obligation so that it acted only as the agent of the shipper in respect of the movement off its own line, it was naturally a difficult matter for the shipper to localize the cause of loss and determine against whom action should be brought.

100. *Insurance.*—When any person is reimbursed on account of loss or damage, the carrier may have the advantage of the insurance in effect upon such goods, subject to its reimbursing the person so assured for the premium paid.

101. *Liability as a warehouseman.*—The railway is not liable, except as a warehouseman—in which capacity it is answerable for want of reasonable care—for loss, damage, or delay caused by fire occurring forty-eight hours, on general traffic, and seventy-two hours, on bonded goods, after written notice of the arrival of the goods at destination has been sent or given. Both these time periods are exclusive of legal holidays. After these periods have expired, the goods may be, on warehouseman's liability, kept in the car, station, or place of delivery, subject to reasonable storage charges; or the goods may be removed to a public or licensed warehouse and there held at the owner's cost and risk. For example, under C. P. R. tariff C. R. C. No. E 2680, effective November 18, 1913, warehouse or shed freight (that is, goods and merchandise usually handled in the regular freight sheds and auxiliary warehouses of the railway) are subject to the following charges after the free time has elapsed:

For the first week, or part thereof—

1	2	3	4	5	6	7	8	10	Classes.
3	3	3	3	3	1½	1½	1½	1½	Cents per 100 pounds.

For the second week, or part thereof, and each succeeding week, or part thereof—

1	2	3	4	4	6	7	8	10	Classes.
6	6	6	6	6	3	3	3	3	Cents per 100 pounds.

These charges are subject to a minimum storage charge for any single consignment of 15 cents for the first week, or part thereof; for the second week, or part thereof, and each succeeding week, or part thereof, 30 cents. Under the former bill, the responsibility of the railway ceased when the goods were placed in the company's sheds or warehouses at destination, and storage charges ran from twenty-four hours after arrival.

102. *Loss and damage.*—Loss or damage is computed on the basis of the value of the goods at the place and time of shipment, plus freight and duty, if any, paid, unless a lower value has been declared, in which case the lower value governs, even if the loss or damage is due to negligence.

Notice must be given, in writing, to the railway either at the point of origin or at the point of delivery, within four months after the delivery of the goods; in case of failure to make delivery, notice must be given within four months after a reasonable time for delivery has elapsed. Under the old bill, claims for damages or loss had to be presented at the nearest place of delivery within thirty-six hours after delivery of the goods.

103. *Payment of charges.*—The owner or consignee may pay freight either before or after delivery. Under the old bill, the charges had to be paid before delivery.

The Railway Act provides that on refusal to pay tolls

they may be recovered in any court of competent jurisdiction. Instead of bringing action, the railway may seize the goods and hold them at the risk of the owner as security for the payment of the charges. If the tolls are not paid within six weeks, the railway, after advertisement, sells the goods, reimbursing itself out of the proceeds. If the goods remain in the possession of the railway unclaimed for six months, it may, after public notice, sell the goods, reimbursing itself out of the proceeds. If the balance remains unclaimed after three months, it is to be deposited with the Minister of Finance for the public use.

104. *Forms of the bill of lading.*—The bill of lading has three sets of documents: (a) the original bill of lading; (b) the shipping order; (c) the memorandum. A and c are for the shipper; b is for the railway. The railway practice is, when claims are made, to require the surrender of the original bill of lading. This serves two purposes; being the original, it requires no verification; and being in the company's possession it cannot be wrongfully utilized by any person who might otherwise use it as a basis for repeating the claim.

There are two bills of lading—the straight bill and the order bill. The papers concerned with the straight bill are printed on white paper; the order bill is printed on yellow paper, while the shipping order and memorandum are printed on blue paper. The bill of lading has a uniform size, viz., 8½ inches by 11 inches.

When the "order" bill is used, it is for transactions negotiated through the banks. For example, an Ontario grain dealer may sell to a firm in Toronto. He draws a draft either on sight or on demand on his consignee, and attaches this draft to the bill of lading which carries title to the goods. His bank will be instructed to hold

the document until the draft is paid. The net amount of the draft goes at once to the credit of the dealer's account. Then the bank owns the draft. It forwards the draft and bill of lading to Toronto. The Toronto firm must pay the draft in order to get possession of the bill of lading, which is its title to the grain.

The bulk grain bill is an "order" bill with the same general terms as have been summarized above.

In 1904, a uniform bill of lading was adopted in the United States. The board has sanctioned the use of this on shipments from any point in the United States into Canada and in the transit trade through Canada.

Two special forms to be noted are the special contract on silver and other valuable ores, in which the railway limits its liability to $500.00 per net ton, and the household goods "release" in which a lower rate is given on a released valuation of $5.00 for any one piece or package.

Both in English and in Canadian law it has been recognized that the carrier may, by contract, exempt itself from liability for negligence; such exemption has, however, to be put in express, plain, and unambiguous terms. There are a number of contracts dealing with liability in respect of particular commodities or services. The live-stock contract is at present being worked over by a special committee of shippers and railway representatives. Men in charge of property other than live stock are required to sign a release from claims for injury, whether caused by negligence or not. The potato contract of the Vermont Central contains an exemption from negligence. The same provision occurs in the general release forms of the Michigan Central and the Niagara, St. Catharines, and Toronto Railways. It is also to be found in the contracts of the Michigan Central and the Toronto, Hamilton, and Buffalo in the case of animals carried

in baggage cars. In the case of circus contracts, a number of Canadian railways recite that they act neither as common nor as special carriers, but simply as hirers of equipment and train crews to the circus for the transport of its outfit, and that the latter assumes all risks, including negligence.

105. *Due diligence.*—Unless arranged under special contract, the railway is not bound to transport goods by a particular train or vessel, or in time for a particular market. Its obligation is to use "due diligence." Due diligence in law means everything reasonable, not everything possible. The question of what is a reasonable time for delivery is one of fact for the jury, and it has been decided that no definite rules can be stated as to what will and what will not constitute unreasonable delay, as this must depend on the circumstances of each case.

106. *Actual car movements.*—The shipper is interested in obtaining a prompt supply of cars with prompt movement in transit. The railway is interested in obtaining the greatest possible efficiency, since it is its cars which are its money collectors. But while it might appear that there should be no difficulty in obtaining an ideal combination of interests, nevertheless there are difficulties in practice. Expedited movements, e. g., live stock, time freights, and various other circumstances and conditions interfere with the balance of mutual satisfaction.

An ordinary freight car on the road may be reckoned, while in motion, to move at 10 miles per hour. But in 1912, the average movement per freight car per day in Canada was 21.4 miles. In 1908, the average had been only 16.1 miles. Putting certain comparisons in a summary way, the following results for 1912 as compared with 1908 are obtainable:

Average haul of freight car per day increased by..........	32%
Freight train mileage per freight engine per day increased by	31%
Tonnage increased by....................................	37%
Freight train mileage increased by........................	49%

That is to say, the work to be done to haul a ton of freight is increasing more rapidly than tonnage.

In Canada, in 1912, the average haul of a ton of freight was 218 miles. With a freight car moving 21.4 miles per day, it thus took on the average 10.1 days to make this journey. Assuming that as soon as the car ends this journey it can start on another, the maximum number of trips it can make in a year would be thirty-six.

At the same time there has been an increase in the cubical contents space of the car, and a great increase in maximum tractive efficiency. For example, a Grand Trunk engine built in 1878 had a tonnage rating of from 300 to 550 tons, while an engine built in 1912 for the same system had a rating of from 1,500 to 2,500 tons. Time or manifest freight, that is to say, higher grade goods moving in train loads where time is important and there is a movement on a relatively fixed schedule, attains high speeds. The Wabash moves out of Sarnia tunnel behind one engine 2,000 tons of such freight, which goes forward at 25 miles per hour. It is manifest that, in general, the transportation efficiency is far within the maximum.

107. *Demurrage.*—Demurrage is a charge in addition to the rate, such charge being intended to compel prompt loading or unloading of cars. The word is maritime in its origin; as early as the twelfth century it was used to express the payment for detention of a vessel beyond the normal time required for loading or unloading a vessel. In railway practice, a demurrage charge is not a car rental, but a penalty charge. In Canada,

this is known as a car service charge. In the United States, "car service" is used to describe inter-railway handling of cars, and the word demurrage is used to describe what the Canadian railways call a car service charge. It does away with confusion to use the word demurrage in this connection throughout the text.

The first Car Service Bureau in the United States was organized at Omaha in October, 1887. This was, however, concerned only with a co-operative organization to deal with common interests. The principle of such a charge had been recognized as early as 1872. In Canada, the principle of such a charge was adopted by the Canadian Pacific and the Grand Trunk in 1892; it subsequently extended to other railways.

In 1906, the Canadian Car Service rules (demurrage) as amended were approved by the board. Under these, there are in general allowed forty-eight hours free time for loading or unloading a car. There are certain modifications of this. In unloading coal, coke, and lime, in bulk, and in the loading and unloading of boards, deals, and scantling, there are seventy-two hours free time. Lumber and hay are allowed, for export, five days free time at Montreal and tide-water ports. In western Canada, under the terms of the Canada Grain Act, twenty-four hours free time for loading are allowed. Where it is necessary to clear customs, twenty-four hours additional free time is allowed for this purpose. In addition, in the various cases the consignee is allowed twenty-four hours after arrival to pay the tolls or charges and give orders for special placing and delivery. For all time in excess of the periods above defined, there is a charge of $1.00 per day per car.

108. *Causes of demurrage.*—Difficulties in unloading cars may arise from conditions for which the consi

is not responsible and over which he has no control. Where local weather conditions render loading or unloading impracticable during business hours, the time allowance is to be so extended as to allow the full free time of suitable weather. There is also the "bunching rule," whose scope is best indicated by quoting it.

Rule 7. When owing to conditions, for which the railway company, or connecting companies, is or are responsible, or to any neglect or default of its or their agents or employees or to storms or floods, or to accidents on a railway, or accident to the equipment of the railway company or companies, cars are tendered to the consignee in numbers beyond his ascertained reasonable ability to unload within the authorized free time, such additional time shall be allowed as may be necessary with the exercise of due and reasonable diligence on the part of the consignee to unload the cars so in excess.

Each railway has its own car service officials and department. In addition, there is a car service bureau which was organized in 1906, and which deals with complaints as between railways and with complaints from individuals as to the amount of demurrage assessed.

The results of the demurrage situation east of Port Arthur for a given period are summarized in the following tabular statement:

Demurrage Eastern Lines, October, 1912, to June, 1913.

	Per cent of Cars Released in Free Time	*Average Detention in Days Railway*	*Consignee*	*Total*	*Collection per Car Detained over Free Time*
Oct.–Dec., 1912,	93%	.66	2.07	2.73	$ 4.63
Jan.–March, 1913,	96%	.52	1.88	2.40	10.70
April–June, 1913,	94%	.46	1.90	2.36	4.13

The high average collection per car in the period January to March, 1913, is due to special conditions which will be referred to later.

109. *Demurrage and car shortage.*—The importance of the demurrage rules is especially bound up with the

question of car shortage, which is a phenomenon that unfortunately presents itself in the fall of the year. At the present writing, the situation is better than it has been for some years. In the Canadian west grain has to be rushed to the lake front in as great a degree as possible before the close of navigation. Consequently, large stocks of cars have to be accumulated. At the same time, the fall is a busy shipping season in the field of general merchandise. Again, in the trade between Canada and the United States there are, for example, large movements of hay. If this hay is consigned to a readily congested terminal, such as New York, the movement of additional cars into the New York terminals may be stopped for a time. This is done by the issuance of a notice known as an embargo. This is in force until the congestion is relieved. In the meantime the hay cars remain under load either in the terminals or on the road. A car may be tied up in this way for two or three months.

While it is the intention of the rules that a car shall be placed, loaded or unloaded in as short a time as possible, with the free time as a maximum, it is possible that the full free time may be taken up. Taking a car held over the free time, in Canada, in the period April to June, 1913, the following results are obtainable:

(1) Time for paying charges and for placing......	1 day
(2) A car may be held for loading..............	2 days
(3) A car may be held for unloading............	2 "
(4) Detention of consignor and consignee........	1.90 days
(5) Railway detention........................	.46 "
(6) 218 miles at 10 miles per hour..............	.908 "
	8.268 days

Since the average car trip takes up 10.1 days, this leaves 1.832 days unaccounted for. If a case is taken where only the free time is used then there are 5.192 days to

account for. It should be pointed out that as the car service details for the section west of the lakes are not published there may be a factor of error in taking as applicable in the west the results worked out in the east.

110. *A matter of controversy.*—Around the question of this detention much controversy wages. In an exhibit submitted by the western branch of the Canadian Freight Association to the board, in a case pending before it, details are given for the period July 1 to December 15, 1912, for western lines covering 9,289 cars held in excess of five days over free time, on which there were 106,034 days' detention. A detention of as high as 152 days is noted in one case. The total number of days' detention is equal to 10,600 additional freight car trips which might have been performed in the period covered. If there is further taken into consideration the five days over free time which is excluded from this exhibit, the total number of days' detention would be equivalent to 15,200 additional car trips; this is equivalent to an addition of 10 per cent to the car supply. On the other hand, shippers furnish many examples of delays in transit. Between Hawkesbury and Hull, a distance of 88 miles, 9 days were taken in transit, and between Hawkesbury and Toronto, a distance of 348 miles, 15 days. The average time of transit on 65 cars between Alberta points and the head of the Lakes was 56 days. Complaints are also made by the shippers of delays in placing cars, as well as of delays in moving cars under load, examples of two, three and more days' delay in lifting car after it is loaded being given.

Various suggestions are made by the railways as to the method of meeting this difficulty. In a recent circular issued by the Car Service Department of the Grand Trunk the following suggestions are made:

heavier loading, prompt unloading, loading commodities at other than rush periods, shippers supplying themselves with adequate warehousing facilities. This company has also circularized its employees instructing them to encourage the shippers to load and unload promptly and to capacity. It pertinently admonishes its employees, "Remember, standing cars earn no money—keep them moving."

In the figures of western lines already referred to analysis points to delays in terminals as an important factor. The figures of the Canadian Pacific cover 338 stations. The following points, Calgary, Edmonton, Lethbridge, Moose Jaw, Medicine Hat, Port Arthur, Regina, Saskatoon, Swift Current, Vancouver, and Winnipeg, were responsible for 60 per cent of the car detention and 50 per cent of the car-day detention. The figures of the California demurrage bureau show that San Francisco, Oakland, and Los Angeles with 24.59 per cent of the cars handled had 36.25 per cent of the cars held over time and yielded 34.23 per cent of the demurrage charges. While the railways contend that they have increased their terminal facilities in excess of the unloading facilities of the consignees, the admonition of the Grand Trunk to its yardmasters and yardmen is pertinent: expedite movement "by realizing that a yard is a place to get cars out of, not a place to get cars into." Delays in transit may, in the case of a single track road, be due to inadequate side track accommodation. If the terminals of such a road are congested the cars block up back on the line.

111. *Higher demurrage charges.*—Urging that the present charge is not a sufficient deterrent, the railways point to the fact that the value of the car to the railway has increased. When the dollar rate was first struck in

the United States in 1872 the normal car held fifteen tons and had an average load of about six tons. Now there are 30-ton cars with an average load of eighteen tons. They point out that in Canada the average daily earnings of a freight car are $2.52, and that the demurrage charge should be commensurate. The shippers rejoin that, deducting operating expenses, a car nets about $1.05 a day.

In November, 1912, application was made to the board for a temporary increase in demurrage charges. It was represented that a car shortage was impending, and that an increased charge, by stimulating the loading and unloading of cars, would increase the available supply of cars. Reference was made to the fact that to meet a similar situation the Temiskaming and Northern Ontario had for a short time enforced a $3.00 rate. An order was issued permitting between December 5, 1912, and April 1, 1913, an increase of the rate to $2.00 for the first day over the free time and $3.00 for each succeeding day thereafter.

The following statement presents a comparison of the January-March period of 1912 with the same period for 1913, the former being under the $1.00 rate, the latter under the increased rate:

Period	*Total No. of Cars*	*Total Cars Detained*	*Per cent of Cars Released in Free Time*	*Aver.*	*Detention*	*Days*	*Coll'n per Car Detained*
				Ry.	*Consignee*	*Total*	
Jan.-Mch., 1912.	351,193	18,157	95%	.45	1.89	2.34	$ 4.27
Jan.-Mch., 1913.	401,481	17,345	96%	.52	1.88	2.40	10.70

In California, as a result of the congestion of the San Francisco and Oakland terminals after the earthquake, high demurrage rates were adopted. These became

general, and so between July, 1909, and April, 1911, there was a rate of $6.00 per day on the intrastate traffic, while on interstate traffic the rate was $1.00. In March, 1911, 98.12 per cent of the cars in state traffic were released in the free time, while on interstate traffic the percentage was 94.79 per cent. The excess over free time on the state rate was 1 day, while on the interstate traffic it was 2.15 days. In May, 1911, a $3.00 rate went into force on the state traffic. The same rate was adopted on interstate traffic in February, 1913. In August, 1913, the percentage released in free time on state traffic was 98.12 per cent, while on interstate traffic it was 97.20 per cent. A considerable part of the difference is due to the fact that on the state movement the originating road has better control of the movement. Further, in California a great part of the movement is concerned with one-line hauls on which the originating carrier has control throughout. On the interstate movement there are delays in connection with "order" shipments, delivery of coal direct from track to the consumer, contractors' supplies shipped in advance of actual demand therefor.

The Pacific Car Demurrage Bureau in its brief before the Interstate Commerce Commission in 1912 quoted the manager of the Weed Lumber Company of San Francisco:

> Since the demurrage rate of $6 per car went into effect in 1909, and later reduced to $3, reasonable terms of loading and discharging being allowed, we have had a fairly abundant supply of cars, even in the most restricted season of the year when the crops were moving, and to my mind the demurrage charge of $6 per day, after reasonable time allowed for loading or discharging, would be more advantageous to the shipper than a lower rate, because of the fact that it would keep equipment

from being used for storage purposes and keep it free for transportation purposes.

112. *Average demurrage.*—While the railways have made suggestions, as indicated, for the improvement of the demurrage situation, the shippers have from time to time made recommendations that either average demurrage or reciprocal demurrage should be adopted.

Under the national demurrage rules of the United States it is provided that when the shipper so elects and gives proper assurance to the railway for prompt payment the demurrage charges may be settled on a monthly balance of debits and credits worked out as follows: a credit of one day at a rate of $1.00 per day is given for each car released within the first twenty-four hours of free time; a debit of one day is charged for each car held for each day or portion thereof that the car is held beyond free time. In no case is a credit of more than one day allowed on any one car, nor may more than five days' credit be allowed in cancellation of debits accruing on any one car. If there is an excess of credits, no payment is made therefor. The credits of one month do not apply on a subsequent month. When a shipper elects the average system he has not the advantage of the allowances in respect of weather conditions and "bunching" which are available to those using the straight demurrage rules.

Those who argue for an average arrangement treat the free time allowance per car as a matter of right which each shipper is entitled to. A representative of the Canadian branch of the International Harvester Company testified that the company's yard tracks could be worked more efficiently under the average system. Instead of the extra switching necessary in order to get

out a car in the order of date and thus save demurrage the car could be used regardless of date of arrival.

In a summary way the arguments advanced for average demurrage are: it means the more rapid placing of cars for loading or unloading, thus effecting a saving on the cost of handling by the railways; cars will be emptied faster and will be placed at the disposal of the carriers earlier, and not only the receiver who takes an interest in releasing his cars, but every shipper, will be benefited; it will remove the friction which frequently arises betwen the carriers and the receivers in respect of weather interference and bunching in transit. The railways contend that the maximum free time is intended simply to give a maximum reasonable time to cover not only those who have good unloading facilities, but also those who have poorer facilities, and that the shipper should use only so much time as is necessary. In dealing with the relation of detention to car shortages the Georgia Railroad Commission said in 1912:

While certain free time is allowed for loading and unloading cars, this does not necessarily mean that it ought to be consumed in every instance and regardless of other consideration or circumstances. Cars should be loaded and unloaded as promptly as possible after being placed. It is not fair to the carriers or other shippers to hold them for 48 hours, just because one has that much free time by law, when they could just as well be handled in 6 or 12 hours.

In a paper presented before the National Association of Railway Commissioners at Washington on October 30, 1913, Mr. James O. Klapp, the manager of the Wisconsin Demurrage Bureau, said:

As a concrete example of the working of this rule, we call your attention to the comparative results of two large firms

in the City of Milwaukee, who are now working under the average agreement.

	Number of Cars	*Days Delayed*	*Average Delay Per Car Per Day*
Under straight demurrage March and April, 1910...	2962	2339	0.79
Under average agreement March and April, 1912...	3796	5525	1.46

Delay under the average agreement exceeds delay under the straight demurrage rules 0.67 days per car per day—actual loss in efficiency 2,543 car days for the two months.

113. *Reciprocal demurrage.*—Under the Railway Act the board is specifically given power to deal with reciprocal demurrage. Under reciprocal demurrage the railways are penalized in the same way as the shippers. The penalty may be for delay in supplying a car or for delay of the car in transit, or both. There are before the board for determination two sets of applications dealing with this matter. One desires that the railways should be required, under penalty, to place cars for loading within forty-eight hours after they are ordered; to lift the cars within twenty-four hours after notification of loading; and to place cars for delivery at destination within forty-eight hours after arrival. The second application desires that, in addition to these conditions, the railway should also be penalized if it does not transport each loaded car a distance of 100 miles per day, twenty-four hours additional being allowed to complete transfer from one line to another where necessary.

The argument for reciprocal demurrage from the standpoint of its analogy to the ordinary demurrage charge has been very well put by Mr. J. E. Walsh, Traffic Manager of the Canadian Manufacturers' Association:

If it is fair (and we say that under ordinary circumstances it is fair) and in the public interest that a charge should be made when freight cars are detained in loading and unloading in order that they may be kept available for service, it is reasonable to expect that the railways should be subject to a similar penalty when they delay cars, entailing serious loss to the public.

The shippers ask for reciprocal demurrage, not from a desire to collect the penalty, but to insure car supply. The advantages claimed for it are threefold: that it will expedite supplying cars, movement in transit, and delivery after arrival.

The railways say in substance: it is not demurrage and it is not reciprocal. They say that delays may be attributable to lack of care in ordering cars. For example, at a grain shipping point 46 applicants may book orders for cars to be placed on one day at a grain elevator. At a country elevator it is a good day's work to load four cars. Therefore, penalties would accrue, when if orders had been spread out no such penalties would have accrued. It is contended that in times of specially active car movement it would be unreasonable to require, under penalty, a supply of cars in forty-eight hours. The delays are attributed, in great part, to the insufficient warehousing facilities of shippers who find it cheaper to hold goods in cars at a penalty of $1.00 per day than to supply warehouses.

The board has found that a shortage of cars in one large western city was due to the large number of cars held under load in the terminals. When the attention of the local Board of Trade was drawn to this it took steps to induce quick unloading.

The railways urge that while allowance is proposed for the time taken in transferring from one line to

another, equally great allowance, if not greater, should be made for passing through terminals where the breaking up of trains and reclassifying of cars necessitates delays. It is claimed that there is no reciprocity as between a penalty charge on a car which the railway owns and a penalty on a car which the shipper hires. It is further contended that reciprocal demurrage would, by collusive arrangements, open up the way for rebating, since it would be possible to allow a favored shipper to have cars while it was known that the terms on which they were ordered under the reciprocal demurrage could not be lived up to. In respect of mileage requirements the railways quote the following average movements during the grain shipping season at the end of 1911:

	Sept.	*Oct.*	*Nov.*	*Dec.*
Great Northern	27.7	31	24.8	20.2
Northern Pacific	24.4	27.2	24.1	20.1
Grand Trunk Pacific	25.4	25.6	25.5	26.9
Canadian Pacific (Western Lines)	33.97	35.51	28.38	26.04

and they contend that the requirement of a defined mileage per day, irrespective of climatic and other conditions over which they have no control, would be unfair and unworkable.

114. *Railway interrelations and per diem charge.*—The large development of through business leads to cars under load going to foreign lines. The American Railway Association has a code of Car Service Rules and per diem charges. The leading Canadian roads are members of this association. The essential rules covering the homeward movement of foreign cars, i. e., cars of another line, are that foreign cars must be promptly returned to their owners loaded (via any route) so that the home road will participate in the freight rate; or loaded to the road from which originally received, if

such loading is in the direction of the home road, but not otherwise; or loaded to an intermediate road in the direction of the home road; or loaded in local service in the direction of any junction point with the home road. There is a per diem charge in the case of foreign cars. This charge, which has varied from time to time, is at present 45 cents per day. This charge is not analogous to the demurrage charge, for in addition to the per diem the home road participates in the rate when the car has moved off its own lines under a through rate or moves on to its own lines under a through rate.

The box car has been called a "legal tender" car since it is a car of general and interchangeable service of any line. It would seem justifiable, with a view to preventing car shortage, to equalize car equipment through a car pool. At present, the road which is short of equipment may, notwithstanding the rules, steal foreign equipment that happens to be on its lines, it being cheaper to pay per diem than own cars. As a further development of this, by means of building a standard box car, although such cars are not far apart in standards to-day, the building of cars in quantity would enable them to be turned out at a lower price. The Car Service Commission of the American Railway Association, in a report published early in 1913, estimated that this saving would be $65.00 per car—6½ per cent of the present cost. In the words of that commission—

> To be just to the railways themselves and to the public generally, this pool should be regulated to the end that there shall be secured to every road the use, when it needs them, of its quota of "legal tender" equipment, whether its own or the equivalent in foreign cars, or, in the alternative compensation in money for the difference. Such regulation can be made effective only by the abandonment of the right to physical

return to the owner of its own cars, and the substitution of the right to possession and use by each line of "legal tender" cars in kind equivalent to the cars by it owned and contributed to the pool. The objections to recognizing a box-car pool in the past have rested largely on the desire of roads which have supplied their quota of "legal tender" equipment and have maintained them on high standards, to be assured of the use of cars measuring up to their standards. The answer is that in practice existing car service rules have not secured this result so far as box-cars are concerned.

The enforcement of the rules as to the prompt return of cars is in the hands of a commission of the American Railway Association, which has power, after investigation, to assess, in addition to the per diem, a money fine with a minimum of $2.00 for each violation of the rules.

The Canadian railways have two general associations—the Canadian Freight Association and the Canadian Passenger Association. These deal with matters of general concern; for example, in the case of the Passenger Association, excursion rates and baggage rules; in the case of the Freight Association, classification, general switching tariffs, and tariffs of general scope.

115. *Interswitching.*—Two or more lines may participate in a relatively long haul. The occasion may also arise where while two or more roads enter one city, the point which the shipper, over the railway which has the line haul, desires to reach is situated in the terminals of another railway or in a section adjacent thereto and served by it. The board has power to provide for a physical connection between such railways so as to afford interswitching facilities. To provide a tariff basis for such services, which were recognized as distinct from the

line haul, the board issued in 1908 an order, the provisions of which presented analytically are as follows:

TRAFFIC DESTINED TO CONSIGNEES:

(a) Upon or
(b) Reasonably adjacent to } tracks of contracting carriers; or
(c) Customarily accepting contracting company's delivery; or
(d) Not clearly indicating delivery required.

In such cases where there is a subsequent application for interswitch delivery involving additional service by another carrier, the contracting carrier may collect an interswitching toll of such other carrier not exceeding 20 cents per ton for a distance up to four miles, with a minimum of $3.00 and a maximum of $8.00 per car.

TRAFFIC DESTINED TO CONSIGNEES:

(a) Upon or
(b) Reasonably adjacent to } tracks other than those of the contracting carrier; or
(c) Customarily requiring such other carrier's delivery.

In such cases the contracting carrier may, for such interswitch delivery, charge not exceeding 10 cents per ton for a distance up to four miles, with a minimum of $1.50 per car and a maximum of $4.00 per car. Such other carrier performing the service may charge not more than 20 cents per ton up to the four-mile distance, with a minimum of $3.00 per car and a maximum of $8.00 per car. The contracting carrier is not required to reduce its revenue below $8.00 per car. It will be noted that, subject to the limitation contained in the preceding sentence, the effect of this arrangement is to require the contracting carrier to absorb one-half the interswitch charge.

It has been decided that this requires the railway to which the car is interswitched to receive the car on its private tracks or industrial sidings, but not to afford the service of placing such car on its team tracks.

The matter of local switching, as distinguished from interswitching, which may involve the service of two or more carriers in a purely terminal movement, is before the board for consideration. The railways object strongly to such a movement, which, while of convenience to the shipper, is an expensive one, since being through the terminals it may place obstacles in the way of the through movement.

116. *The work of the claims department.*—Claims may arise from train collisions and derailments, breakage, pilferage, leakage, soakage, weather conditions, non-delivery or delayed delivery, overcharges due to erroneous rate quotations, misclassification, errors in way-billing, weighing. There are also claims arising from accidents to passengers and claims for cattle killed on the tracks. These are simply mentioned here. The Canadian Pacific deals with about 55,000 claims a year, the Grand Trunk with about 58,000.

There is probably no department of the railway service which has a greater opportunity to create friction, or a better opportunity through the exercise of tact to prevent friction. Shippers constantly complain that there are undue and unreasonable delays in connection with the settlement of claims. The railways respond that while they use every endeavor to settle claims, there are of necessity delays in settlement. While many claims are made in good faith, there are others that are fraudulent; and so all must be tested.

In case of claims arising in connection with movements local to the line, the matter should be promptly

TABLE OF GRADUATED CHARGES

FOR SHIPMENTS WEIGHING LESS THAN 100 LBS.

When rate per 100 lbs. is ☞	.40	.50	.60	.75	.90	1.00	1.25	1.50	1.75	2.00	2.25	2.50
Packages not over	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25
Over 1 "	2 " 25	2 " 25	2 " 25	2 " 30	2 " 30	2 " 30	2 " 30	2 " 30	2 " 30	2 " 35	2 " 35	2 " 35
" 2 "	3 " 25	3 " 25	3 " 30	3 " 30	3 " 30	3 " 30	3 " 35	3 " 35	3 " 40	3 " 45	3 " 45	3 " 45
" 3 "	4 " 25	4 " 25	4 " 30	4 " 30	4 " 30	4 " 35	4 " 35	4 " 40	4 " 45	4 " 50	4 " 50	4 " 55
" 4 "	5 " 25	5 " 25	5 " 35	5 " 35	5 " 35	5 " 40	5 " 40	5 " 40	5 " 50	5 " 50	5 " 55	5 " 60
" 5 "	6 30	6 30	6 35	6 35	6 35	6 40	6 45	6 50	6 55	6 60	6 60	6 65
" 6 "	7 30	7 30	7 35	7 35	7 35	7 40	7 45	7 50	7 55	7 60	7 65	7 70
" 7 "	8 30	8 30	8 35	8 35	8 35	8 40	8 45	8 50	8 55	8 65	8 70	8 70
" 8 "	9 30	9 30	9 35	9 40	9 40	9 45	9 50	9 55	9 60	9 70	9 75	9 75
" 9 "	10 30	10 30	10 35	10 40	10 40	10 45	10 50	10 55	10 60	10 70	10 75	10 75
" 10 "	15 30	15 30	15 35	15 40	15 45	15 45	15 55	15 60	15 65	15 75	15 80	15 85
" 15 "	20 30	20 30	20 35	20 40	20 45	20 50	20 60	20 70	20 75	20 85	20 90	20 100
" 20 "	25 35	25 35	25 40	25 45	25 50	25 55	25 65	25 75	25 85	25 100	25 105	25 110
" 25 "	30 35	30 35	30 45	30 50	30 55	30 60	30 70	30 80	30 90	30 100	30 110	30 115
" 30 "	35 40	35 40	35 45	35 50	35 60	35 65	35 75	35 85	35 100	35 100	35 113	35 125
" 35 "	40 40	40 40	40 50	40 55	40 65	40 70	40 80	40 90	40 100	40 100	40 113	40 125
" 40 "	45 40	45 40	45 50	45 60	45 70	45 75	45 90	45 100	45 100	45 100	45 113	45 125
" 45 "	50 40	50 45	50 55	50 60	50 75	50 80	50 100	50 100	50 100	50 100	50 113	50 125
" 50 "	55 40	55 50	55 60	55 65	55 75	55 85	55 100					
" 55 "	60 40	60 50	60 60	60 70	60 80	60 90	60 110					
" 60 "	65 40	65 50	65 60	65 75	65 85	65 90	65 115					
" 65 "	70 40	70 50	70 60	70 75	70 90	70 100	70 125					
" 70 "	75 40	75 50	75 60	75 75	75 90	75 100	75 125					
" 75 "	80 40	80 50	80 60	80 75	80 90	80 100	80 125					
" 80 "	85 40	85 50	85 60	85 75	85 90	85 100	85 125					
" 85 "	100 40	100 50	100 60	100 75	100 90	100 100	100 125					

(1.50) Over 50 lbs. to 100 lbs. charge 2 cents per lb., but not more than $1.50.

(1.75) Over 50 lbs. to 100 lbs. charge 2 cents per lb., but not more than $1.75.

When the rate is $2.00 or over per 100 lbs. charge Pound rates for 50 lbs. or more.

When rate per 100 lbs. is ☞	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
Packages not over 1 lb.	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 25	1 lb. 30	1 lb. 30	1 lb. 30	1 lb. 30
Over 1 "	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35	2 " 35
" 2 "	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45	3 " 45
" 3 "	4 " 55	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60	4 " 60
" 4 "	5 " 65	5 " 65	5 " 65	5 " 70	5 " 70	5 " 70	5 " 75	5 " 75	5 " 75	5 " 75	5 " 75
" 5 "	6 70	6 70	6 75	6 75	6 75	6 80	6 80	6 85	6 85	6 90	6 90
" 6 "	7 75	7 75	7 80	7 80	7 80	7 85	7 85	7 90	7 95	7 100	7 100
" 7 "	8 75	8 75	8 80	8 85	8 85	8 90	8 90	8 90	8 95	8 100	8 105
" 8 "	9 75	9 80	9 85	9 90	9 90	9 95	9 95	9 95	9 100	9 100	9 110
" 9 "	10 75	10 80	10 85	10 90	[illegible] 95	10 100	10 100	10 100	10 105	10 110	10 110
" 10 "	15 85	15 90	15 95	15 100	15 105	15 110	15 110	15 115	15 120	15 125	15 125
" 15 "	20 105	20 110	20 115	20 120	20 120	20 125	20 130	20 130	20 135	20 140	20 145
" 20 "	25 115	25 120	25 125	25 130	25 135	25 140	25 145	25 150	25 155	25 160	25 165
" 25 "	30 125	30 130	30 140	30 150	30 155	30 160	30 165	30 170	30 170	30 175	30 185
" 30 "	35 130	35 140	35 150	35 160	35 165	35 170	35 180	35 190	35 195	35 200	35 215
" 35 "	40 138	40 150	40 160	40 175	40 180	40 185	40 195	40 200	40 215	40 225	40 240
" 40 "	45 138	45 150	45 163	45 175	45 188	45 200	45 210	45 225	45 235	45 250	45 260
" 45 "	50 138	50 150	50 163	50 175	50 188	50 200	50 213	50 225	50 238	50 250	50 263

Example of Graduated Charges in Canadian Express Classification

sifted and settled. But where two or more lines are involved in the haul there is a reason why greater delays may take place. It has been contended by shippers that interest should be allowed on claims after a certain date. It is further contended that the expense bill should give more detail as to advance charges of other lines and the additional charges, if any. While it is the regulation of the railways that as full information as possible should be given on the expense bill, in various instances the absence of it has made it difficult for the shipper to check the items. If claims cannot be satisfactorily settled they have to be dealt with in the courts.

In a recent hearing before the board an exhibit was submitted by the Canadian Northern for its lines west of Port Arthur, setting out the disposition of claims filed on account of error in rates, weight, classification, or accounting. For one year, the following details were presented:

Claims received, local..........	1962
" " foreign........	1423
	3385

Adjustment made as follows:

Local—

16 %	adjusted in less than	7 days
21.8%	" " " "	14 "
9.3%	" " " "	21 "
11.1%	" " " "	30 "
41.8%	" beyond 30 days	
13.3%	took over 3 months to adjust.	

Mean average—28 days.

Foreign—refers to claims on joint business:

9.3%	adjusted in less than	7 days
10.5%	" " " "	14 "
5.7%	" " " "	21 "
8.4%	" " " "	30 "
6.61%	" beyond 30 days	
37.3%	took over 3 months to adjust.	

Mean average—37 days.

CHAPTER VIII

EXPRESS SERVICE

117. *Express service and its scope.*—Express service is an expedited freight service carried on passenger trains under the personal care of an express messenger. In addition, there is in the case of towns and cities either a delivery or a pick-up and delivery service. While it is a freight service, the companies performing the service do not own the means of transportation, as in the case of ordinary freight carriers. They enter into contractual relations with the railways for the purchase of space for the carriage of goods. While the railway has a large investment of capital in a fixed form in roadbed and cars, the express company's investment is concerned for the most part with office space, horses, wagons, or motor vehicles for performing pick-up and delivery service.

The express service covers not only the carriage of high-grade parcel freight, but also many articles of food and drink. Not only are packages carried; provision is also made for the movement of horses in carloads as well as for a refrigerator car service in the case of fish and fruit. Provision is made for the shipment of currency, bullion, gold and silver coin, precious stones, valuable papers and securities. A banking business is done through the issuance of money orders. The returns from C. O. D. shipments are also collected and returned to the consignor.

The movement is not limited to one country alone, foreign shipments also being handled. In addition, vari-

ous other services are rendered. The wide scope of these is set out in the following extract from a special report made by the Interstate Commerce Commission in 1909:

Commodities of all kinds are bought and transported on orders and are likewise transported and sold on orders. To care for and extend this branch of the business properly, the various companies maintain order and commission departments. . . . Express business is carried on through order and commission departments in four different ways, viz., (1) a patron may order any commodity, subject to express shipment, which will be purchased by the company's agent and transported to him for express charges; (2) a patron may deliver any commodity, subject to express shipment, to an agent of the company, to be transported to a certain buyer and the agreed sale price collected and transmitted to the shipper for express and money order charges; (3) a patron may deliver any commodity, subject to express shipment, to an agent of a company who will undertake to sell it through other express agents to the best advantage on shippers' account and transmit the proceeds for express and money order charges; (4) a patron may request an express agent to perform any reasonable commission, such as collecting tolls, filing papers for record, redeeming pledges, etc., which will be undertaken by the company for agreed charges.

The report continues by stating that the express agent will enter and clear articles at custom houses, transport goods in bond, exchange foreign money, redeem pawned articles, pay gas bills, and "in short will attend to any legitimate business transaction as the customer's agent."

118. *Early history of express companies.*—In the early days of railway travel in the United States, especially between New York and Boston, there grew up in the case of food supplies a spasmodic traffic of convenience. In some cases a friend in one city would send to a friend in another a package, basket, or bundle which

some passenger would undertake to look after on the way; or sometimes the conductor or baggageman would undertake the service for a consideration. Under such conditions, all the risks of loss through lack of care, as well as all the risks incidental to transportation, had to be borne by the shipper.

In 1839, the modern express service began in the venture of William Herndon, who undertook to carry packages between New York and Boston at fixed rates. He issued receipts for the packages and assumed the risks in connection with their safe transmission. At first, he constituted the whole service, traveling to and fro, carrying the packages in a couple of valises. As his business expanded, messengers were employed, who also traveled in the passenger cars. It was not until the late forties that an exclusive car for express service was put into operation.

The express service, therefore, arose out of Herndon's appreciation of a public need at a time when the railways considered that the only branches of business with which they were concerned were freight and passenger.

In 1855, the *American Railroad Journal* strongly urged that the express business should be done by the railway without the use of any intermediary. There were still, however, difficulties in the way of through lines of traffic, although the consolidation of the various small lines was already under way. The American Express Company was founded in 1850 as a result of the consolidation of two private companies. In 1854, Herndon's Company and three others were consolidated into the Adams Express Company. In the same year the United States Express Company was organized. The discovery of gold in California in 1849 led to the creation of various pony express companies. The companies so

organized were consolidated in 1866 under the name of the Wells Fargo Company. In general, it may be said that in the United States the handling of express business by express companies was well established at the outbreak of the Civil War.

119. *Express companies in Canada.*—In the United States the express companies grew up independently of the railways. They have in later years come into very close relationship with them. In various cases the holdings of stock in express companies by particular railway groups give the interests controlling these practical control of the express companies as well. In Canada, from the outset, the express companies have been the creations of the railway companies.

There are operating in Canada to-day various American express companies—National, United States, Great Northern, Wells Fargo, and American. The Canadian companies are the Dominion, Canadian, and Canadian Northern.

The Canadian Express Company was organized in 1865 with a nominal capital of $500,000, subscribed capital of $275,200, of which 10 per cent was paid in. The capital stock of the company was purchased in 1891 by the Grand Trunk for $660,000 in cash. The stock of the company is held in trust for the Grand Trunk Railway by a body of trustees who are all directors of the Grand Trunk.

The Dominion Express Company was incorporated in 1882 with a capital of $1,000,000. When the company began business, 10 per cent of this had been paid up. The stock of the company is held in trust by its directors for the Canadian Pacific.

The Canadian Northern Express Company was organized in 1902 with a nominal capital of $1,000,000;

$300,000 of this was issued; $5,000 was paid in cash; of the balance, five shares went to qualify certain shareholders, while the remainder went to MacKenzie and Mann, who thus through stock ownership control the company.

120. *Arrangements with railways.*—The express company pays the railway over whose lines it operates an agreed percentage of the gross earnings. For example, the Canadian Express Company pays the Grand Trunk 50 per cent. The balance of the earnings, after the deduction of operating charges, go, on account of the fiduciary relationship of the express company to the railway, to the Grand Trunk.

The operation of an express company is not limited to the lines of the railway which controls it. The smaller railways have no separate express company service of their own, and enter into relationships with one or other of the express companies already referred to. For example, the Canadian Express Company has contractual relationships with the following: Quebec, Montreal, and Southern; Temiscouata; Cumberland Railway and Coal Company; St. Martin's; Central Railway of New Brunswick; Windsor, Essex, and Lake Shore; the Intercolonial and other railways. The Dominion Express Company also operates over the Intercolonial.

The Canadian Express Company operates over twenty railways, while the Dominion operates over thirty-two, and the Canadian Northern over seven.

In the contracts referred to, the Canadian Express Company pays the railway percentages varying from 40 per cent to 50 per cent of the gross.

The express company operates not only ordinary express cars, but also refrigerator cars in the transport of fish and fruit. At the larger points it maintains its own salaried agents. At the smaller points, the railway

station agent will act as a joint agent of the express company and of the railway. He is paid by the express company; in the case of the Canadian Express Company, by a commission varying from 2½ per cent to 10 per cent of the gross earnings at the point in question. In the case of the Dominion Express Company, he is paid on a tonnage basis. The result is about the same in either case.

The express business in Canada is primarily concerned with a movement in and out of the larger centers. In the case of the Dominion, it is estimated that 64 per cent of the business handled by it originates at Montreal, Toronto, and Winnipeg.

121. *Express classification.*—While it has been suggested that the freight classification might, with some necessary amendments, be adopted to suit express traffic, there are many difficulties in the way sufficient to prevent this. The great difficulty is that, in cities, express traffic is collected in large quantities and delivered just as trains are departing, when there is no time to handle it under a classification similar to that of freight.

The express classification in use has first to obtain the formal sanction of the board. The Railway Act states that all its provisions "applicable to freight tolls and freight tariffs, in so far as such provisions are applicable . . . shall apply to express tolls and tariffs."

In express classification, commodities are classed not in groups, as in freight traffic, but according to the rate the commodities take. Express shipments are broadly distinguished as "freight" and "money." Under "money" are included not only shipments of actual money, but also of bullion, stocks, bonds, valuable papers, and various articles of unusual value. "Freight" shipments are sub-classed as "merchandise," "general

special" or Scale N, and Scales K, M, and Section D. There are also special scales and rules covering shipments of "money." "Merchandise" rates are those applying on commodities for which there are no special rates. The "merchandise" ratings in the classification may also be expressed as a multiple of the "merchandise" rating. Articles not shown in the classification and not analogous to those rated higher or lower than "merchandise" take the "merchandise" rate, which is always expressed at the rate per one hundred pounds.

Scale K is a special tariff on ale, aerated waters, etc., and is from 30 per cent to 40 per cent lower than "merchandise." It applies at pound rates on actual weight. Scale M is a special tariff on eggs in cases. Scale N quotes special rates on perishable foodstuffs, such as provisions and vegetables. Originally it was concerned simply with farm produce. Its scope has been widened, so that in the forty-three articles covered by it there are included, in addition to provisions and vegetables, cuttings, fertilizers, plants, poultry food, roots, scions, seeds and seed grain, stock food, tallow, trees for setting, stearine and tubers. Its rates are from 20 per cent to 30 per cent below "merchandise." Pound rates are charged with a minimum of 35 cents, unless the graduate under this scal or under the Merchandise rate is lower.

Section D rates apply on packages, not exceeding five pounds, of books, stationery, lithographs, periodicals, etc., carried in competition with the post office. At present, the express rates are lower than those of the post office on packages exceeding five pounds. Section D rates are 1 cent for each two ounces or fraction thereof, subject to a minimum.

122. *Value, weight, and space.*—In the classification ratings, value, weight, and space are considered.

The value of the article is considered, since the normal rate is based on a value per package not exceeding \$50. If the shipper desires the company to assume a liability in excess of this sum, he has to pay additional charges, which are known as valuation charges. These are imposed on the excess value for each \$100.00 value or fraction thereof, as follows:

Where merchandise rate is \$1.00 or less, per 100 lbs.	5c.
" " " " \$1.00 to \$3.00 " 100 "	10c.
" " " " 3.00 " 8.00 " 100 "	15c.
" " " " over \$8.00 " 100 "	20c.

In the matter of weight, shipments of extraordinary weight or size are carried only under special contract. The factor of weight is considered in connection with the movement of packages of less than one hundred pounds weight. When the merchandise rate per one hundred pounds is less than \$2.00, "graduated" charges are assessed on all shipments weighing less than one hundred pounds. When the merchandise rate is \$2.00 or over, graduated charges are assessed on shipments under fifty pounds. Where the weight is over fifty pounds, pound rates (i. e., the rate per pound at the one-hundred-pound rate) apply.

Space is recognized by the provision that conventional weights shall apply in the case of light and bulky goods, e. g., millinery shipments.

On computations made by the Dominion Express in 1907, 47 per cent of the shipments move on the merchandise rate, the balance being on lower rates.

In the amendment of the classification by the board in the express investigation, the owner's risk conditions were eliminated.

123. *Conditions of carriage.*—In the merchandise receipt, the liability is limited to \$50.00 per shipment, except where a higher value is declared and inserted in the

receipt. In the express investigation, the express receipts which hitherto gave the companies a very wide exemption were redrafted. The company is not liable—

(a) For differences in weight or quantity caused by shrinkage, leakage, or evaporation.

(b) For loss or damage occurring after forty-eight hours (exclusive of legal holidays) after notice of the arrival of the shipment at destination, or at point of delivery, has been mailed to the address of the consignee, unless such loss or damage is due to negligence of the company.

(c) For loss or damage which can be met by the common law defenses.

(d) For loss or damage occurring in a custom warehouse.

(e) For loss or damage or delay resulting from improper or insufficient packing, securing, or addressing, or from chafing when packed in bales.

(f) For loss or damage to any fragile article, unless there is negligence.

(g) For loss or damage from delays beyond its control.

(h) For loss or damage arising out of examination or partial delivery to the consignee of C. O. D. shipments.

(i) For damage, loss, or partial shortage, unless written notice is given at any office of the company within thirty days from delivery.

(j) For loss or damage occurring to shipments addressed to stations where there is no agent of the company after such shipments have been left at such station.

(k) For non-delivery, loss, or destruction in Canada, unless written notice is given within four months from the time delivery should, in the ordinary course of transit, have been made.

The word "company" as used in this receipt includes any connecting express company subject to the Railway Act. The agreement entered into by the signing of the receipt is binding on the shipper and all persons in privity with him, and inures to the benefit of any person or company to whom the shipment may be delivered for the performance of an express service.

There is a money receipt the conditions of which in respect of liability are, subject to modifications due to the difference in the nature of the commodities, substantially the same as in the case of the merchandise receipt.

In the C. O. D. receipt covering collections by the company, the common law defenses apply; in addition, the company is exempt from liability for fire unless there is negligence. It is also free from liability for loss, damage, or delay resulting from improper or insufficient addressing or securing.

In the live stock contract, the company is exempt from liability for delay, injury, or loss to the animals from any cause whatsoever unless there is negligence. The attendant accompanying the animals is required to sign a release from all liability, negligence included.

124. *The standard mileage tariffs.*—The standard mileage tariff gives the merchandise rate. At the basis of such a tariff is the question of the division of territory into mileage blocks. In eastern Canada, these run up to 100 miles in 25-mile groups; from 100 to 200 in 50-mile groups; and from 200 in 100-mile groups up to the maximum.

When the general investigation into express rates was conducted, the board found that west of North Bay no such exact arrangement as to mileage groups existed as east thereof. Each standard tariff had its own particular mileage grouping, and the groups were irregular

and overlapped. Direction was therefore given that there should be a rearrangement with a view to approximating uniformity, so that, for example, any two or more of the western groups should be equivalent to and included in the corresponding eastern group, instead of the relation being fractional, as then existing.

The eastern and Lake Superior standard scales then met at North Bay. Direction was given that to harmonize with freight conditions, the rates should instead break at Sudbury.

The meeting point of the prairie and the mountain express standard mileage scales had hitherto been at MacLeod and at Calgary. Direction was given that the rates should break from one scale to another at the points where the rates broke in the case of freight rates. The direction given was in summary:

(1) That there shall be four "standard" mileage-basing scales, viz.:

(a) On all lines east of and including Windsor and Sudbury, excluding the lines of the Temiskaming and Northern Ontario Railway.

(b) On all lines west of and including Sudbury to and including Sault St. Marie, Crow's Nest, Canmore, and Thornton, Alberta; also north of and including North Bay.

(c) On all lines west of and including the terminal points set out in the preceding section to the Pacific Coast and to Vancouver Island transfer points.

(d) Vancouver Island.

(2) That the basis of (a) should not exceed \$8.00; of (b), \$5.00; of (c), \$6.00 per 100 pounds for the 900-1,000 mile group. In Vancouver Island, the mileage

groups were to be harmonized without increasing the rates.

The standard rates so fixed were further reduced in April, 1913, when it was directed that instead of the \$5.00 and \$6.00 rates already referred to there should be substituted rates of \$4.00 and \$4.75 respectively.

125. *Differences in traffic conditions.*—In sanctioning differences in rate basis as between the sections covered by the different tariffs, differences in traffic conditions were recognized. In rearranging rates under its recent decision on express rates in the United States, the Interstate Commerce Commission has taken a similar position. The following words are from its judgment:

> We have, therefore, felt that it was necessary for us to recognize the variation in the density of traffic and of population and in the expense of operating railroads in the different sections of the country. With this in mind as a basis for the formation of rates, the country has been divided into five grand subdivisions. These subdivisions conform generally to those recognized by the rail carriers and which this Commission has in the consideration of freight rates been led to believe were based upon actual differences in operating and traffic conditions.

Following out the practice herein laid down, the Interstate Commerce Commission recognizes five zones differing in traffic and in population density, and has adjusted rates with this in mind.

126. *Four standard tariffs.*—The standard tariffs are four in number. Tariff A, applying east of Windsor and Sudbury, has a merchandise rate of 40 cents per 100 pounds for distances of 25 miles and under; from 26-100 miles, the rates are stepped irregularly 10 or 15 cents for each 25-mile group; from 101 to 200 miles, the rate steps are 25 cents for each 50-mile group; and

beyond this up to the limit of the tariff at 2,000 miles the rates are stepped 25 cents for each 100-mile group. As the grouping is more complicated in tariffs B and C, it may be expressed in a tabular summary:

TARIFF B WHICH COVERS 3,400 MILES:

Up to 25 miles, merchandise rate of 50c.			
26 to 75 miles,	25	mile groups, rate steps either	10c. or 15c.
76 " 110 "	25	" " " "	25c.
111 " 210 "	50	" " " "	25c.
211 " 330 "	60	" " " "	25c.
331 " 400 "	70	" " " "	25c.
401 " 700 "	75	" " " "	25c.
701 and beyond	100	" " " "	25c.

TARIFF C WHICH COVERS 4,000 MILES:

20 miles and under, merchandise rate of 50c.			
21 to 75 miles,	15	mile groups, rate steps either	10c. or 15c.
76 " 150 "	25	" " " "	25c.
151 " 350 "	40	" " " "	25c.
351 " 400 "	50	" " " "	25c.
401 and beyond	100	" " " "	25c.

Tariff D, which is concerned with Vancouver Island, covers 135 miles. Up to 100 miles, there are 25-mile groups, there being ten or fifteen cent increases up to 75 miles and a 25-cent step on the next group. Beyond 100 miles, there is one group with a rate step of 25 cents.

The following summary compares certain of these rates:

	A	*B*	*C*	*D*
25 miles and under,	40c.	50c.	20 miles and under, 50c.	25 miles and under, 50c.
100 "	75c.	....	....	under, $1.00
1000 "	$3.00	$4.00	$4.75	....

The board found that in the traffic between the prairie section and British Columbia the practice was to make up a through rate by adding the two tariffs together. In order to bring about uniformity and lessen the burden of rates, direction was given that on inter-division

traffic which was not subject to the Sudbury basing schedule, the highest standard mileage scale as applied to the through mileage should govern in either direction.

Between points east of Sudbury and points west thereof, through rates were built up by adding to the local rate east of Sudbury a special basing tariff west thereof, which latter is assumed to be lower than the Sudbury local tariff. Direction was given that the system might be continued, provided that the through rates were less in all cases than the sum of any tariff rates to and from Sudbury, and were not greater than the higher standard tariff as applied to the through mileage from the point of origin to destination. The Sudbury basing scale is contained in the Dominion Express Company's local mileage basing tariff Schedule "E." This sets out the specific rates for mileage west of Sudbury which when added to the rates east and south of Sudbury will give the through rate to destination, except where the standard tariff west of Sudbury applied to the through mileage gives lower through rates.

127. *Local and transfer tariffs.*—Local tariffs set out the rate per 100 pounds between points, such rates applying either way. The rates are quoted specifically from point to point. As an example of this, reference may be made to the Dominion Express Company's Local Tariff No. 20. This applies on shipments between points in the Province of Quebec and points in Alberta and British Columbia. All points set out in the tariff are given a rate number. If, for example, it is desired to find the rate per one hundred pounds from Maniwaki, Quebec, to Walsh, Alberta, it will be found that the rate number for Maniwaki is 145 and for Walsh 700. In the rate schedules of the tariff, rate numbers are arranged along the head of each page; there is also a column of

rate numbers arranged horizontally on the left hand of each page. At the intersection of the column headed 145 with the horizontal line to the left of the page which has at its extreme left 700, the rate of $6.25, which is the rate sought, will be found. The tariff in question in its 271 pages quotes rates from 566 initial points to 551 destinations, or a total of 351,866 rates.

Where a shipment is to move off the lines of the originating express company to a point on the line of a connecting company for which no through rate is quoted, the agent figures out the rate by means of a transfer tariff. This tariff sets out rates to basing transfer points. For example, a shipment might be sent from Red Deer, Alberta, on the lines of the Dominion Express to North Battleford, on the lines of the Canadian Northern Express. If there is no through rate quotation, then the rate shown in this tariff to Edmonton, as a transfer point, plus the Canadian Northern Express local beyond, will make up the through rate. There is a chance for overcharge under such an arrangement, for there may in a particular case be a number of basing transfer points available with different rates. It is true that the direction to the agent is to compute the rate by the basing transfer point, which gives the lowest through rate. But in the hurry of shipment, the lowest combination may be overlooked.

128. *Rates as affected by quantity.*—In general, the factors which affect express rates are more clearly analogous to those affecting passenger rates than to those affecting freight rates. From the standpoint of cost of service, the difference between the capitalization in ordinary freight business and in express service is attributable to the fact that the former is a transportation business, while the latter is more of an agency business.

The charge of the latter is, therefore, not necessarily looked at from the standpoint of the return on capital invested, but from the question of what is the rate of profit on the turnover.

While competitive conditions, such as water and market competition, exercise an important effect on freight rates, express rates are in a different condition. Water competition certainly cannot be said to influence in any way a service, the essential of which is speed; nor is the express service influenced in nearly the same degree by the question of competitive points as is freight.

In general, it is the factors which affect passenger business which apply here. Express companies do recognize a difference of condition as between their "exclusive" or non-competitive points and points at which there is competition of another express company. They recognize at competitive points the effect of short line mileage as well as the control over a two-line movement of a single line haul. The Canadian Express carries from Toronto to Welland, a distance of eighty-five miles, at a rate of 75 cents per 100 pounds. The Dominion Express and the American Express, a two-line movement, meet this rate of 75 cents. Fenwick, a point seven miles short of Welland and through which the movement on the two-line haul passes, has a rate of 90 cents. The lower rate to Welland has been held justifiable as a competitive rate, while at the same time the higher rate of the two-line haul to the intermediate point has been recognized. It has been recognized that in express as in freight there is a justification for a reasonably higher rate on account of cost and division of earnings on a two-line haul than on a one-line haul. But at Welland the two-line movement had to meet the rate of the one-line movement.

129. *Freight rate as a basis.*—At times the expedited service afforded in express business has been expressed as a multiple of the first-class freight rate. Thus in some of its earlier decisions on express rates, the Interstate Commerce Commission held that an express rate of three times the first-class freight rate was not unreasonable. In the contract entered into between the Dominion Express Company and the Canadian Pacific Railway in 1907, it was provided that the express rate should be 2½ times the first-class freight rate. In practice, however, no such necessary relation exists. In the case of the cream rates in Alberta, which were fixed by the board, in various instances the express rate is less than the first-class freight rate. In the case of the fruit rates in British Columbia, which have been readjusted by the Express Company, the rate from a point in the Okanagan Valley—for example, Peachland—to such prairie points as Swift Current, Moose Jaw, Broadview, Regina, Saskatoon, and Brandon, is less than the first-class freight rate.

130. *Special circulars.*—Commodity rates are put in force by special circulars quoting rates per one hundred pounds. These may be limited to the one-way direction, or may apply "between" points, in which case they apply in both directions. The rates quoted in special circulars must not be exceeded to an intermediate point embraced in the longer distance for which the rate is quoted. Scale N rates apply where they are lower than the rates quoted in special circulars. Commodity rates are issued on fish—fresh, frozen, or cured—lobsters, oysters, fruit, butter, eggs, dressed poultry, general specials (Scale N), vegetables, sausage meat, meat—fresh or cured, smelts, export shipments of bullion, returned empty newspaper or periodical bags, bread, laundry, currency,

and gold coin. Competition is recognized in putting in a commodity tariff, as, for example, in a rate of 30 cents per 100 pounds on horses, minimum 10,000 pounds, from Clairmont to Toronto, to compete with a through rate put in from a Canadian express point, Stoufville, to New York.

Instead of a division into carlot and less than carlots as in freight, express business recognizes:

(1) Carlots, e. g., on horses and poultry.

(2) There is a rate quoted for 500-pound shipments of merchandise from one consignor to one consignee forwarded at one time and on one receipt. A shipment of less than 500 pounds cannot have a higher charge than a 500-pound shipment. The articles which will not be carried under the 500 scale are: aeroplanes (K.D. boxed), animals (domestic or wild, either alive or dead), self-propelling vehicles, live-stock, birds, poultry, pigeons, nickel and copper coin, bullion, feathers, live fish, ice-cream, and in general any article taking a higher classification than single merchandise rate. In general, the rate is about 20 per cent lower than merchandise rate.

(3) Then there is also recognized the 100-pound rate on merchandise and,

(4) The packages under 100 pounds which are carried on the graduate scale.

181. *The graduate table.*—Approximately 90 per cent of the packages handled by express companies weigh one hundred pounds or less. The Interstate Commerce Commission in its investigation found that approximately one-half of the express business consists of packages under 20 pounds in weight; and that the average shipment, including carloads of horses and of fruit and vegetables, is 34 pounds. Taking the business of

the Dominion Express Company for September 18, 1912, when a computation was made, it appears that applying the same average to the year's business 26 per cent of the revenue was obtained from parcels of 11 pounds and under. In the Express Investigation, it was shown that for a given month in 1907 the average weight of packages shipped in to Toronto was 19 pounds, while in the case of outward shipments it was 43 pounds. In eastern Canada, the average haul per package—i. e., all shipments—is about 100 miles, while in western Canada it is not far from 300 miles.

The rates for packages under 100 pounds are worked out from a table of graduated charges which is set out in the classification.[1] If, taking the example already given of a shipment between Maniwaki, Quebec, and Walsh, Alberta, it is desired to ship a 15-pound package between these points, the agent will look at the column in the graduate table headed $6.25, which is the merchandise rate for a 100-pound shipment between the points. Then he will run down that column until at the left-hand side of the page he finds the 15-pound line, where this line intersects the $6.25 column the proper rate, viz., $1.45 will be found. The graduate table has the following modifications to be noted: Under the $1.50 rate, shipments in excess of 50 pounds pay 2 cents per pound with a maximum of $1.50; while under the $1.75 rate they pay the same rate per pound with a maximum of $1.75. As has been indicated, when the merchandise rate is $2 or over the shipment in excess of 50 pounds is charged pound rates.

132. *Rates not uniform.*—Scrutiny of the graduate table will show that the rates are not built up on a scientific basis. The effect of the 100-pound rate is not

[1] See specimen on opposite page.

carried down uniformly through the columns of rates. For example, under the $1 merchandise rate, 60 pounds is 90 cents; 40 pounds, 70 cents; 20 pounds, 50 cents; 10 pounds, 45 cents. It is urged by the express companies that the expenses in connection with collecting and delivering and handling and clerical expense are practically the same on the small shipment as on the large shipment. Further, in the case of the 100-pound shipments, these are normally made by firms which will supply the express wagon with a large amount of such shipments on one wagon trip, thus cutting down the wagon mileage necessary.

There is considerable force in this contention. At the same time, in view of what has been said as to average size of shipment, the pressure of the graduate table on the smaller-sized package is apparent.

In the Express Investigation, it was found that only some twenty-nine rate columns were given in the graduate table and that where the rate between any two points was not given the next higher rate was to be used in arriving at the rate on the particular package. Where there was a considerable gap between rates, this meant a very considerable added rate burden, and so direction was given that graduates had to be added under all the 100-pound merchandise rates. There are now 72 rate columns in the table.

138. *Single through rates.*—In the matter of through rates on packages, under the graduate table, moving over two lines, the practice had been to graduate once on each of the local rates. By an order issued in November, 1911, the express companies were directed to apply a "single" graduate. The effect of this is as follows: suppose a ten-pound shipment is moving on a through movement, the locals for which on the merchandise rate

are $1 and $1.50 respectively, graduating on each local rate there would be a charge of 45 cents and 75 cents, or $1.20. With the single graduate on the $2.50 rate, the charge is 75 cents. When the graduate was made on the sum of the locals, there really was included in the rate charges a payment for four terminal services instead of two as at present.

The effect of the reduction in western rates, already referred to, whereby a reduction of 20 per cent in the standard rates was directed, affected not only the merchandise rates and the special scale for shipments of 500 pounds, it also affected the quantities of less than 100 pounds moving under the merchandise rate and scales K and M.

CHAPTER IX

INLAND WATER TRANSPORTATION

134. *Water transportation as a regulator of rates.*—In dealing with the factors affecting railway rates, various examples have already been given of the influence exercised by water on rail movements. In general, where there is competition between these two methods of transportation, the rail rate can exceed the water rate only to the extent it gives superior facilities. Some of the following factors of advantage are possessed over inland water transportation by rail transportation: in the case of ocean transportation, it possesses all of them; goods carried by water have to bear marine insurance—the rail carrier is an insurer; liability to salt water damage; longer time in transit and consequent greater interest on capital invested; uncertainty in date of arrival, etc. To all this must be added the general convenience which the railway affords, which is estimated as worth a premium of at least 5 per cent over water rates. This has been put in the form of an example by Mr. W. R. Wheeler, Traffic Manager of the San Francisco Merchants' Exchange:

> . . . let us take two plates of metal of equal gauge and dimension—one of copper, the other of iron. The value of the copper at point of shipment is, say, 15 cents per pound, while that of iron is 2 cents per pound.

	Per hundred pounds		
Sail freight on the copper	50c.	Iron,	50c.
Insurance	45c.	"	06c.
Interest	30c.	"	04c.
Salt water damage	00c.	"	08c.
	$1.25		68c.
Add for rail convenience 5 per cent	.06		03c.
	$1.31		71c.

By this it is plain that while the copper occupies no more space than the iron, and is of such a nature that no salt water damage is charged against it—the reverse being the case with the iron—and although the rate by sea is the same on both, the railroad is enabled to obtain a rate on the copper almost 200 per cent higher than the sail rate, while on the iron it obtains a rate less than 50 per cent higher than the sail carrier. . . .

The efficiency of water competition on inland waters is affected by the location of cities and towns. Where these are adjacent to the water, the competitive effects are more readily felt. But even in the case of points some distance inland, for example, throughout the western peninsula of Ontario, the effect of the water route is felt. As a particular example on the all-rail movement of coal to London, there is the competitive effect of the across-the-lake movement to Port Stanley and thence to London.

135. *Efficiency of waterways.*—Inland waterways differ in point of efficiency. The lakes and navigable waters are public highways accessible to all. Canals require larger investments of capital, but are still common highways on which the individual may use his own vessel. The accepted practice is to have canal construction carried on at public expense as a charge against the taxing power of the country. When canals occur

on a route, they aid in determining the maximum efficiency of a route. The same thing is true in the case of dredging, as in the St. Mary's River and through the St. Clair flats. Just as the governing grade of a railway, in a division, determines in practice the hauling efficiency of an engine (no matter what may be its maximum tractive efficiency) through the division, thereby affecting the costs of haulage, so it is the shallowest part of a water route that governs the loading efficiency of the route.

The policy adopted as to canals may be one of charging tolls with a view to earning a return on the investment, or they may be free of tolls, the charge being one against the general revenues of the country as in the case of highway construction. While individual boats may use the water route, subject to the due observance of the recognized rules of navigation, in the case of railways, the necessity of unified control leads to a specialized type of management. The vessel may ply from port to port using different routes according to the necessities of trade. In the case of railways, the large investment of capital necessary limits the number of routes available.

136. *Canal terminals.*—In the development of canals, independent of great waterway systems, an exceedingly important matter is the location of the terminals of these canals in the various towns and cities they serve. One disadvantage the English combined canal and waterways systems have is that their terminals are so located in large cities that it is cheaper to haul by rail direct to destination, as well as more convenient, than to pay the water charge and the wagon haul through the city to destination. In the cities, businesses engaged in distribution grow up adjacent to the railway terminals, and

in many cases have railway sidings where delivery is taken. If it costs 25 cents a ton to haul coal by wagon from the canal termin[illegible] [illegible]o the coal yard, this, if the canal toll is 3 mills per ton [illegible] mile, is equivalent to the cost of hauling the coal ei[illegible] [illegible]-three miles on the canal.

137. *Effect of highway costs.*—Highway costs are the highest of transportation costs per mile. The United States Department of Agriculture made a special investigation in 1907 of the highway costs of hauling agricultural products from farms to shipping points. Taking hemp, which had the lowest average haul—5 miles—the ton mile cost of haulage was 23 cents. To haul grain by wagon into Edam, Saskatchewan, from a distance of 35 miles costs per 100 pounds 2¼ times what it costs to haul it from that point to the head of the lakes, a distance of 1,200 miles.

Of course, the costs will vary with the conditions of the road, the nature of construction of the road, the type of motor power used, whether animal or gasoline, etc. But striking a rough general average, the cost of hauling on earthern roads by animal power is about 25 cents per ton mile. It is apparent that in wagon haulage on highways there are not available the same opportunities to take advantage of the economies of bulk movements as are present in the case of railways and waterways.

138. *Canadian lake and canal route.*—From the head of Lake Superior to Montreal the distance by the water route is 1,228 miles. From Duluth and Chicago to the same point the water distances are 1,357 and 1,286 miles, respectively. Out of the distance between Port Arthur and Montreal, the canals to be traversed represent 73⅛ miles, i. e., lockages are involved in 6 per cent of the total route.

Through the "Soo" Canal, which has a lock 900 feet

in length, and which is 21 feet 5 inches in depth, the largest vessels plying on the lakes can pass. The vessels passing through it can move without breaking bulk to the foot of Lake Erie. East through the Welland Canal and the St. Lawrence canals to Montreal, the governing locks are 270 feet in length and 14 feet in depth.

This determines the cargo load and type of vessel using the lower portion of this route, and differentiates the type of vessel in use on it from that used between Lakes Superior and Erie. In general, on the lower portion of the route, a vessel 255 feet in length, 42 feet 6 inches wide, drawing 18 feet and carrying 2,212 tons of cargo may be regarded as typical of the ordinary vessel accommodation afforded by this portion of the route.

189. *From Georgian Bay to Montreal.*—Consideration of the short line movement between Georgian Bay and Montreal has led to public interest in the Georgian Bay Canal route which would, in the movement from Fort William to Montreal, have a distance advantage over the route of the Welland Canal of 362 miles. Surveys of the route on the basis of a minimum depth of 22 feet have been made by the Dominion Government, and an investigation of its commercial possibilities will shortly be made. The proposed depth would enable a lake vessel to go through from the Upper Lakes to Montreal.

In comparing this route with existing or projected routes, the question of the elevation to be overcome is of importance. Between Georgian Bay and Montreal, there are 440 miles of navigation. Natural channels are available for 80 per cent of this distance. To reach the summit level 639 feet of lockage will be necessary. By the Welland Canal route only 534 feet of lockage are necessary. The Georgian Bay route may, as a factor

in the general traffic of the lakes, be compared with the much discussed deepening of the Mississippi River which is intended to afford a traffic outlet from Lake Michigan to the Gulf of Mexico. This proposed deep waterway would between its termini have a distance of 1,625 miles.

It is true that the estimated cost of a deep waterway by this route does not call for more than $40,000,000, or less than half of the cost of the Georgian Bay route. But there must also be considered the nature of the stream, its tortuous course which is 60 per cent longer than the direct distance, and the constant expenditure on dredging which would be necessitated by the large amounts of silt carried down by the river.

While the Georgian Bay is feasible from an engineering standpoint, the important question is its probable traffic future. The saving in time, consequent in the shorter distance, and the reduction in rate consequent thereon may be expected to attract traffic. On the basis of a movement of four miles per hour through the canalized portion of the route vessels would move from Georgian Bay to Montreal in seventy hours, giving an advantage of from one and one-half to two days over existing routes. This calculation is based, however, on the conditions affecting the existing fourteen-foot waterway by way of the Welland Canal.

The Welland Canal is being reconstructed to permit the passage of the Upper Lakes vessels. If the St. Lawrence route to Montreal were deepened to twenty-two feet to Montreal, it is probable—subject to the traffic conditions already mentioned—that the Georgian Bay Canal would have no advantage in point of time. The deepening of the Lower Lake and river canals and the increase in the size of the locks would lessen the amount

of lockage. At the same time, the longer stretches of lake and river navigation would permit higher average speeds than would be possible on the northern route.

140. *Ottawa system.*—The canals of the Ottawa system are of limited importance, having locks 200 feet long and 9 feet in depth. On the Rideau Canal system, the locks are 124 feet long and 5 feet deep; while on the Richelieu system they are 200 feet in length and 7 feet in depth. The Trent Canal, which is intended to connect Georgian Bay and the eastern end of Lake Ontario, affords a tortuous water route six times as long as the direct land route. The governing depth is five feet. The route is being constructed as a barge route. Among other disadvantages as compared with the Welland Canal route is the fact that it has five hundred feet more of vertical lift.

141. *No canal tolls.*—From an early date the construction of improved transportation ways in Canada, both by water and by rail, has looked to participation in the trade of the western states adjoining the Great Lakes. Down to 1902 tolls were charged on the various canals. Since 1903 tolls have not been charged. The advantage of increased traffic, as reacting on the general business of Canada, is expected to compensate for this additional charge on the general revenue of the country.

Throughout, the aids to navigation and the deepening of harbors are charged against the general revenues of the country.

142. *Great Lakes traffic.*—A tremendous volume of freight and vessel tonnage has developed on the Great Lakes. Without comparing values, it may be said that there annually pass through the two canals at Sault Ste. Marie, in seven and a half months, three times the vessel

tonnage passing through the Suez Canal in a year. When to this there is added the vessel tonnage between Lakes Huron and Michigan on the one hand and Erie on the other, the result may be measured by the statement that during the season of navigation a vessel passes Detroit every six minutes. The number of vessels passing Detroit is ten times greater than the number passing through the Suez Canal. The freight tonnage passing Detroit is greater than the aggregate of all the cargoes borne by all the ships, British and foreign, entering the ports of Great Britain in a year.

143. *The Upper Lakes.*—In the traffic of Canada's inland waters, that of the Upper Lakes is the most important. The movement through the Welland and the St. Lawrence canals represent, respectively, 7 per cent and 6 per cent of the total movement through the Canadian canals; the movement through the Canadian "Soo" Canal is 83 per cent of the total. Of the total capital expenditure on canals since Confederation 84 per cent has been on the "Soo," Welland, and St. Lawrence canals. Between 1909 and 1912 the freight traffic passing through the Canadian "Soo" Canal increased by 42 per cent. In the same period the traffic passing through all Canadian canals increased by 41 per cent. Of the increase 62 per cent was attributable to the "Soo" Canal.

A significant fact in the development of lake transportation has been the increasing importance of the Upper Lakes. The great increase in the traffic passing through the "Soo" canals is one index of this. With the development of the United States, the westward movement of grain centers and the expansion of population have lessened the transportation importance possessed by the Lower Lakes in the early days of the Canadian canal

system. In the United States, the center of wheat production has moved west and north. In Canada, the more recent development of the wheat areas of the Northwest has intensified the significance of this northward and westward pull. The transportation significance of these changes is that all the shortest lines of communication from the Northwest to the seaboard lie across Canada.

144. *Character of freight.*—In the general traffic of the lakes, 90 per cent is represented by iron ore, coal, grain, flour, and lumber. The significance of this is shown in the following percentage comparison, which brings out the much simpler nature of the traffic through the Canadian "Soo" Canal than through the lower canals:

	Agricultural Products	*Animal Products*	*Manufactures*	*Produce of Forest*	*Produce of Mines*
Soo Canal..........	11.4	0.001	0.24	0.13	88.229
Welland Canal......	42.3	0.3	21.9	7.9	27.7
St. Lawrence Canals.	32.2	0.2	13.3	16.6	37.7

Of the American traffic carried through all Canadian canals in 1912, 85 per cent was iron ore and 8 per cent coal. The bulk of the movement through the "Soo" canals is eastbound. The figures for August, 1918, which are the least available, show 2½ tons of freight moving eastbound for every ton moving westbound.

With the expanding grain traffic of the Canadian Northwest, there arise two important questions: what proportion of it is lake borne and what routes does it take? There are in Manitoba, Saskatchewan, and Alberta 2,265 country elevators and warehouses with a capacity of 70.4 millions of bushels. The Dominion government has adopted the policy of constructing elevators at interior points. Including the new government terminal elevator at Port Arthur, with a capacity of 3,250,-

000 bushels, there is now at Fort William and Port Arthur storage capacity for 41.1 millions of bushels.

145. *Canadian grain.*—As one of the great problems of the Canadian Northwest has been concerned with rushing the grain to the lakes before the close of navigation, the problem of how and to what extent the movement from the head of the lakes is water-borne is important.

Between 1909 and 1912—Canadian was not differentiated from American grain in the statistics before 1909—the Canadian wheat moved via the Canadian "Soo" Canal increased from forty-eight to eighty-three millions of bushels, an increase of 74 per cent. The total quantity of Canadian wheat moved by water through the two canals at the "Soo" increased from 65.6 millions of bushels in 1911 to 109.8 millions in 1912, an increase of 51 per cent. In addition, there passed through the two canals 2.8 millions of barrels of Canadian flour, which, allowing 4¾ bushels of wheat to a barrel of flour, gave a total water-borne wheat movement of 123.2 millions of bushels of wheat.

The movement of Canadian wheat from the head of the lakes and its destinations for a period of years is expressed in the following percentage summary:

	1909	*1910*	*1911*	*1912*
Fort William to Montreal......	21.9	25.5	20.1	13.6
" " " Georgian Bay ports......................	27.9	24.6	15.6	17.8
Fort William to other Canadian ports.....................	21.1	18.5	18.7	18.6
Fort William to Buffalo........	26.7	30.3	43.8	40.2
Duluth to Canadian ports.....	1.3	.6	.7	1.7
" " U. S. ports.........	1.1	.6	1.1	5.2
" unclassified............	....	....	....	2.9

The distribution of the movement is indicative of the importance of short-rail route methods of communication

with the seaboard, either across Ontario or via Buffalo. Of the 16.6 millions of bushels of elevator capacity in the public elevators of Ontario, 69 per cent are to be found at the Georgian Bay ports.

146. *Lake vessels.*—In 1912, the average Canadian steam vessel engaged in trade between Canada and the United States entering Port Arthur was 2,488 registered net tons, while the average American vessel was 2,595 tons. The unimportance of sail tonnage is shown in the fact that no sailing vessels are recorded for Port Arthur, while for Fort William there were thirteen American sail-vessels and one Canadian.

The relatively simple nature of the traffic of the Upper Lakes and the large bulk of the individual items thereof have encouraged specialized vessel construction. Grain and flour furnish a considerable amount of cargo for the smaller vessels, such as the wooden steamers in the three hundred and three hundred and fifty foot classes. Lumber is handled to a large extent by wooden steam barges which tow loaded barges. Schooners are also to some extent still engaged in this traffic. It is in the traffic in ore, grain, and coal that the large bulk freighters are used. In this traffic, the tramp or "wild" boats are of importance as a regulative factor. Tank boats are also used in the carriage of oil—for example, by the Imperial Oil Company—to the head of the lakes, where supplies of oil are stored to be shipped on further west in the winter season.

The package freight of the lake, which amounts to about 6.6 millions of tons, includes general merchandise, such as silks and woolen fabrics and manufactured goods, canned goods, fine furniture, bar iron and steel, etc. Here the traffic is carried mostly by line boats. The rates of the line boats are usually lower than those of the

rail carriers by an agreed difference. While the Northern Navigation Company and the Dominion Transportation Company enter into through rate arrangements with the railways, there are various through all-water independent lines operating to the head of the lakes, e. g., the Inland Lines operating from Montreal, Toronto, and Hamilton to Sault Ste. Marie, Ont., and Fort William, the Canadian Lake Line and the Merchants' Mutual.

147. *Formation of Canada Transportation Lines, Ltd.*—In June, 1913, an amalgamation was formed to control various freight and passenger services, whereby a new company with a capital of $25,000,000, the Canada Transportation Lines, Limited, took over the Richelieu and Ontario Navigation Company, the Inland Lines, Northern Navigation Company, St. Lawrence River Steamboat Company, Quebec Steamship Company, Canada Interlake Line, Ontario and Quebec Navigation Company, Merchants' Montreal Line, S. S. Haddington, Thousand Island Steamboat Company.

The Richelieu and Ontario Company already controlled by purchase or by stock ownership the Inland Lines, Northern Navigation Company, Niagara Navigation Company, St. Lawrence River Steamboat Company, Thousand Island Steamboat Company, and Merchants' Montreal Line. The Quebec Steamship Company operated a service between Quebec and the maritime provinces, as well as between Quebec, New York, and the West Indies. The Canada Interlake Line had already consolidated the interests operating under the name of the Merchants' Mutual Line.

148. *Advent of large vessels.*—In 1898, the construction of a vessel 475 feet long for the Bessemer Steamship Company, an American lake boat company, was hailed as marking an epoch in lake shipbuilding. To-

day there are 600-foot freighters, and larger vessels are not unknown. Such boats, while monstrosities from the standpoint of naval architecture, have great carrying capacity. The "J. Pierpont Morgan," which is 605 feet 5 inches in length, can carry in a single voyage a cargo equal to the combined cargo capacities of every vessel afloat on Lake Superior in 1861. On the day this boat was launched, its captain said that it could carry in one voyage as much ore from Duluth to Cleveland as the first steamer he commanded twenty-eight years before could have carried in two years and a half.

While a boat of this type is built so that it can carry nearly 21,000 tons of freight, the channels in the Detroit, St. Clair, and St. Mary's rivers limit its effective carrying capacity to about fourteen thousand tons. In the loading, management and unloading of such a vessel, mechanical appliances are freely used. It is operated economically at a speed of from 11 to 12 miles per hour, with a coal consumption of 5 pounds for each 100-ton miles, about one-fourth of the consumption required for the performance of the same work by a railway. A six hundred-foot ore boat can be loaded by the use of ore docks in two hours and unloaded in from five to ten hours. An ore boat returning light can make thirty round trips in a season between Superior and Cleveland. If it takes back coal, it can make twenty round trips. The largest Canadian freighter, 551 feet in length, the "James Carruthers," was wrecked in the great storm of November, 1913.

149. *Loading and unloading.*—The loading and unloading of grain can be carried on with great expedition. At the new government elevator at Fort William, 100,000 bushels can be unloaded from the cars in an hour, while a 600-foot car can be loaded in less than four hours.

In one day in 1912, fourteen boats took on at Fort William and Port Arthur 3,000,000 bushels of grain. At the end of September, 1913, one grain train came into Winnipeg with 68 cars of wheat, or 76,500 bushels. From Winnipeg to the head of the lakes, the trains average about 41 cars. This means that one 600-foot boat can take on nine such train loads. In the case of the 3,000,000 bushels loaded in one day, this was equivalent to 65 train loads. The grain vessels can handle out of Fort William and Port Arthur in ten days as much grain as the Canadian Pacific can handle east by rail while navigation is closed.

When the grain arrives at Port McNicoll, for example, the Canadian Pacific port on Georgian Bay, it is found that the best average so far made in unloading is 375,000 bushels in 18½ hours. From this point, the Canadian Pacific was sending forward, early in November, 1913, 100 cars a day. That is to say, assuming the average of unloading to keep up during a twenty-four hour period, it would take five days to move away from the elevator what was unloaded in one.

150. *Combined inland and ocean traffic.*—It is at times urged that the improvement of the St. Lawrence canals, if this follows the improvement now under way on the Welland Canal, or the construction of the Georgian Bay Canal, will lead to ocean-going vessels carrying their cargo in, without breaking bulk, to lake ports and receiving there export freights. Without going into earlier experiences, reference may be made to the fortunes in 1901 of the vessels built for the Counselmen Syndicate by the American Shipbuilding Company. Although they journeyed under their own steam from Chicago to Europe, the venture was so unprofitable that it was given up after one season. The fact that the vessels could not

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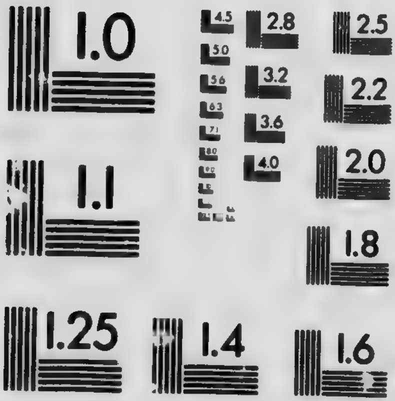

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load to their full depth of twenty feet until Montreal was reached was peculiar to the existing canal depth. In addition, they could not compete in cargo capacity with the larger vessels either of the lakes or of the ocean. Their sailors were paid on the lake scale of wages, about twice as high as the ocean scale. In addition, the vessels were subjected to high insurance charges. The North Atlantic requires especially stout construction. The lake vessel is more lightly constructed. The stronger hulls, etc., needed for the ocean voyage add about 20 per cent to the cost. The lake vessel, on account of the smaller amount of coal needed to be carried, has greater cargo space in proportion to size than the ocean-going vessel. In general, the latter costs about twice as much per ton of cargo capacity as the former. A combined lake and ocean type of vessel would lack the economic advantages attaching to the more specialized type.

151. *Lake rates.*—Figures collected by the Railways and Canals Department show the average lake rate, in 1912, on Canadian traffic as .194 cents per ton per mile, while the United States traffic using the Canadian inland waterways showed an average of .067 cents per ton per mile. At the same time, the average ton mile rate for Canadian railways was .757 cents per ton per mile. Putting this in a readily comparable form, $1.00 carried one ton 132 miles by rail, 515 miles in Canadian lake traffic and 1,498 miles in United States lake traffic using Canadian waterways.

A comparison between the rail gross ton mile rate and the water ton mile rate is not conclusive. In the ton mile of the railway there is averaged up high grade and low grade, long haul and short haul, carlot and less than carlot business. In lake business, the movement is almost exclusively concerned with a few bulky commod-

ities. In comparison with the Canadian lake ton mile rate of .194 cents may be taken the all-rail ton mile rate from Fort William to Montreal for the same season, viz., .402 cents, under which rate a ton of grain would be moved 247 miles for one dollar.

The disparity between the Canadian and the American lake ton mile rates indicates the difference in the nature of the traffic, and has a bearing on the Buffalo movement of Canadian grain. As has been pointed out, 93 per cent of the United States' traffic carried through Canadian waterways is concerned with iron ore and coal. Iron ore is carried down by the large freighters from the Minnesota iron ranges; coal is carried back. Expedition is desired so as to get the maximum number of trips in a season; coal can be loaded and unloaded by mechanical means. During 1912, the rate on ore from the points of origin on Lake Superior to the ports of destination on Lake Erie was 55 cents per ton, or .063 cents per ton mile; on the return movement there is a large amount of empty cargo space and coal is carried at exceedingly low rates—during 1912 at 30 cents per ton, or .046 cents per ton mile.

In the matter of rates on water-borne grain, there are variations from year to year, as well as from season to season. Complaint was made, for example, that the rates in 1913 were higher to Montreal than to Buffalo. In 1912, the ton mile rates worked out as follows:

	May	*November*
Fort William to Buffalo	.106	.150
" " " Georgian Bay ports	.012	.259
" " " other Canadian ports	.099	.232
" " " Montreal	.147	.193

152. *Comparison between lake and canal movements.* —The low averages of the United States' traffic to Buf-

falo are, in the case of ore and coal, held down by a highly specialized traffic and the necessity of obtaining cargo for backloading on the westward and northward movement. The grain rates afford a more fairly comparable basis. In the movement to Buffalo there is large bulk in large freighters. These are able to obtain some cargo on Lake Erie either of coal or a certain amount of package freight. In the movement through the Welland Canal and on to Montreal, the physical features of the canal system limit the maximum through cargo to 80,000 bushels; so the economies of bulk handling are not so largely present. The traffic may either go to Montreal or be transhipped at Kingston. In either case, there is the disadvantage that little westbound cargo offers on Lake Ontario.

In the lake movement, short trips with minimum coal consumption are the most profitable. Even in the case of a vessel which is able to pass through the Welland Canal, the locking through takes about nineteen hours. The same expenditure of time would, after delivering its cargo at the foot of Lake Erie, take it back as far as the Detroit River. As between the movement to Canadian points and the movement to Buffalo, it must also be remembered that while in 1912, in the carriage of grain between Canadian ports and United States ports, the average capacity of the Canadian boats was 102,000 bushels, in the same movement the average capacity of United States' boats was 226,000 bushels. In 1912, the insurance rate on the insurable value of the hull, covering all risks from the head of the lakes to the foot of Lake Erie, was 5¾ per cent. An additional 1 per cent was charged on the movement east thereof to Ogdensburg, while an additional 1 per cent was charged on the movement east of Ogdensburg to Montreal.

In comparing rail with lake and river rates, it is urged that in the latter case cognizance should be taken not only of what the shipper pays, but also of what the government contributes, if an adequate conception of the cost of movement is to be obtained. Taking into consideration the interest at 3½ per cent on what has been expended on canals and adding thereto the annual outlay for upkeep, it will be found that this contribution figures out .140 cents per ton per mile, which, when added to the actual freight rate of .194 cents, gives a rate of .334 cents per ton per mile as compared with an all-rail rate on grain of .402 cents from Fort William to Montreal.

CHAPTER X

FOREIGN TRADE AND OCEAN TRANSPORTATION

153. *Canada's foreign trade.*—Ninety per cent of Canada's foreign trade is with the British Empire and the United States. The concentrated nature of the trade is shown in the following percentage summary of the trade with its most important trade connections:

	Per Cent.
British Empire:	
United Kingdom	30.9
British possessions	4.5
United States	55.8
Germany	1.7
France	1.5
	94.4

The export trade of Canada is concerned with relatively simple categories, as is indicated in the following percentage summary covering the five months ending August, 1913:

	Per cent.
The mine	13.1
The fisheries	3.8
The forest	11.8
Animals and their products	10.7
Agriculture	40.4
Manufactures	15.6
Coin and bullion	3.8
Miscellaneous	.8

Putting the matter in a summary way, by articles, 74 per cent of the export trade is concerned with bread-

stuffs, fish, lumber, fruit, animals living, furs and skins, leather and manufactures of, metals and minerals and manufactures of, provisions, seeds, coal and charcoal, paper, drugs and chemicals, stone and manufactures of. It thus appears that it is for the most part a trade in bulky articles.

The manufactured products of Canada were in the census year $1,164,695,032. Assuming that in the intercensal period since elapsed there was the same ratio of increase as in the previous decennial period, it will be found that the export of manufactures for 1912 was only 2.5 per cent of the total manufactured product.

154. *Imports from Great Britain.*—Of the imports from Great Britain, the following articles—in each case there being an importation of $1,000,000 or over—cotton and manufactures of, flax, hemp and jute, metals and minerals and manufactures of, wool and manufactures of, spirits and wines, sugar and molasses, silk and manufactures of, diamonds, paper and manufactures of, fruits, glass and manufactures of, gunpowder, gutta percha, hats and caps, leather and manufactures of, oilcloths, books, drugs and dyes, earthenware, make up 72 per cent. The three items, cotton and manufactures of, metals and minerals and manufactures of, wool and manufactures of, make up 47 per cent of the imports from Great Britain. Animals living, grain and grain products, fish, fruits, furs and skins, leather and manufactures of, metals and minerals and manufactures of, provisions, seeds, lumber and manufactures of, total 99 per cent of the exports to Great Britain. The items of animals living, grain and grain products, provisions, and lumber alone total 84 per cent.

155. *United States imports.*—Of the imports from the United States, 81 per cent are represented by animals

living, books, breadstuffs, bricks and tiles, carriages and motors, coal and coke, binder twine and cordage, cotton and manufactures of, drugs, dyes and chemicals, electrical apparatus, fruit and nuts, furs and manufactures of, grease, gutta percha and manufactures of, hats and caps, hides and skins, jewelry, leather and manufactures of. The items of breadstuffs—corn being the important import—carriages and motors, coal and coke, cotton and manufactures of—half of this is raw cotton—electrical apparatus, fruit and nuts, gutta percha and manufactures of, metals and minerals and manufactures of, represent 61 per cent. The principal items of Canada's exports to the United States are animals living, breadstuffs, carriages and motors, drugs and chemicals, fish, furs, skins and manufactures of, metals and minerals and manufactures of, paper, seeds, lumber and manufactures of. These represent 83 per cent. Of the exports of minerals, five-sixths are concerned with gold, silver, asbestos and nickel. Farm products, fish, minerals, and lumber account for 63 per cent of the export trade.

156. *From France.*—In the imports from France, silk and its manufactures, wool and its manufactures, and spirits and wines are the most important single items, accounting for 36 per cent. Of the exports to France, the most important single items are fish and agricultural implements, which represent 79 per cent of the exports. From Germany, the most important imports are fancy goods, lace, feathers, etc., furs and manufactures, metals and their manufactures. These represent 39 per cent. Of Canada's exports to Germany, 84 per cent are represented by breadstuffs, fish, fruits, and agricultural implements.

157. *From Mexico.*—The trade with Mexico, Central

America, the West Indies, and South America is interesting, not because of what it is but of what it may become. It amounts at present to about 3 per cent of Canada's trade. The principal imports are hides and skins, copper, sugar and molasses, tobacco and cigars, manila grass and fibre, chicle gum crude. The principal exports are lumber, fish, breadstuffs, coal and coke. The British West Indies constitute the most important customer—one-third of the trade is done with them.

158. *Canadian tonnage.*—Deducting the imports from and exports to the United States to get a rough approximation of the ocean-borne traffic, it will be found that 37 per cent of Canada's imports and 65 per cent of her exports enter into ocean traffic.

The registered net tonnage of ocean-going vessels is less than that engaged in the trade of the inland waters between Canada and the United States, the figures being 24.5 and 28.3 millions of tons respectively.

Both in the ocean tonnage and in the inland tonnage steam predominates. The following tabular summary presents essential features:

Ocean-going tonnage 24.5 millions of tons register

	Per cent of Total Tonnage	*Per cent of Steam Tonnage*	*Per cent of Sail Tonnage*
British	54.2	95.4	4.6
Canadian	18.9		
Foreign	26.9	84.8	15.2

Inland water tonnage between Canada and the United States 28.3 millions of tons register

	Per cent of Total Tonnage	*Per cent of Steam Tonnage*	*Per cent of Sail Tonnage*
Canada	47.4	95.2	4.8
United States	52.6	88.6	11.4

In the ocean tonnage, the average size per vessel is held down by the number of smaller vessels in the fisheries, both sail and steam.

The figures of the coasting trade, which amount to 66.2 millions of registered tons, should also be considered in this connection.

	Per cent of Total Tonnage	*Per cent of Steam Tonnage*	*Per cent of Sail Tonnage*
British and Canadian	95.6	86.6	13.4
Foreign	4.4	99.6	.4

The tonnage of freight inward from the sea is 2.9 millions of weight tons, and .3 millions of measurement tons. Outward, the figures are 4.3 millions and 1.4 millions, respectively. By ownership of vessels, the distribution of this freight tonnage is as follows:

	INWARD		OUTWARD	
	Weight Tons per cent of	*Measurement Tons, per cent*	*Weight Tons of per cent of*	*Measurement Tons, per cent of*
British,	49.1	74.6	61.9	51.2
Canadian,	8.7	2.6	11.7	15.3
Foreign,	43.2	22.8	22.4	32.5

159. *Ballast.*—While from the nature of the tonnage movements a great preponderance of movements in ballast inward might be expected, they differ but little, being 27 per cent inward and 24 per cent outward. The distribution of the movement in ballast by countries in percentages of the total vessel tonnage of each group is as follows:

	Inward	*Outward*
British	16	12
Canadian	33	33
Foreign	39	37

Of the inward movement in ballast, 72 per cent is due to lack of cargo from the United States to Canadian ports. On the outward movement in ballast 64 per cent is due to lack of cargo from Vancouver and Victoria, while Prince Rupert and Sydney, Nova Scotia, have 7 per cent and 4 per cent of the movement out in ballast, respectively. A further analysis is of interest with a view to ascertaining what percentage of the movement inbound from Europe is in ballast, as the cost of the light movement has to be charged against the total movement in and out.

The United Kingdom with 56 per cent of the inward tonnage has 4 per cent of the movement in ballast. While on the inward movement Newfoundland with 590,000 tons of shipping and the sea fisheries with 197,000 tons have 26 per cent and 42 per cent of movement in ballast, respectively, these are local movements which cannot be considered as materially bearing on the movement from Europe.

Taking the countries of Continental Europe, it will be found that Austria, Belgium, Norway, Denmark, France, Germany, Holland, Portugal, Russia, Spain, and Sweden have 21 per cent of their vessel tonnage moving in ballast. The tonnage of these countries is not especially important in the inward movement. It is only 18 per cent of the total foreign vessel tonnage inward.

It would, therefore, appear that as far as movement inward in ballast is a factor in rates, the lack of ocean carriage between United States and Canadian ports, which is in turn due to the highly developed railway carriage between the two countries, is the one important factor in the whole inward movement in ballast.

160. *Principal ports.*—The principal ports are in or-

der of imports and exports: Montreal, Vancouver, St. John, N. B., Halifax, Quebec, and Victoria. Of the export trade, 30 per cent is handled through Montreal, while it also handles 26 per cent of the imports.

These ports have 72 per cent of the steam tonnage entering Canada from the ocean. In the trade of these ports, sailing tonnage is of minor importance, both as to numbers and size of vessels. In the trade of the Atlantic ports the steam vessels are larger than in the trade of the Pacific Coast. The position of the different ports in order of importance as to tonnage is as follows:

Name of Port	*Vessel Tonnage*	*Steam Tonnage per cent*	*Sail Tonnage per cent*	*Average Size of Steam Vessel in Tons*	*Average Size of Sailing Vessel in Tons*
Vancouver..........	3,759,109	99.1	.9	891	1,349
Victoria.............	3,622,851	98.9	1.2	1,330	222
Montreal............	3,385,951	99.1	.9	4,040	882
Halifax	3,111,535	97.1	2.9	2,443	122
Quebec..............	2,323,345	99.9	.1	4,573	72
St. John, N. B.......	2,012,425	92.6	7.4	2,694	84

161. *Montreal harbor.*—The Harbor Commissioners of Montreal, in their special report in 1908 on the development of the port, presented the following summary of the situation at Montreal:

a. The present port development only partly takes care of the existing trade.

b. The tonnage has doubled in five years and a vast increase in trade is in sight.

c. Marine insurance rates have been cut in two in the same period.

d. Nature has provided a thousand miles of magnificent navigation into the heart of the continent.

e. Interior navigation through Canadian canals provides means of traffic distribution on a scale not equalled by any other port in the world.

f. Direct railway access is provided to the docks at Montreal for every railway in the country on equal terms.

g. A 30-foot ship channel now exists from Montreal to the sea, with possibilities of enlarging it and maintaining it at a lower comparative cost than any European approach channel.

h. The aids to navigation throughout a thousand miles of water channel are not excelled in Antwerp, Bristol, Cardiff, Glasgow, Hamburg, Havre, Liverpool, London, Manchester, Marseilles, and Newcastle-on-Tyne.

The report urged that the port development of Montreal should be planned to be at least equal to that of Hamburg or Liverpool. There should also be a free port district after the model of Hamburg. In the free port district of Hamburg goods can be stored, mixed, improved, or re-manufactured, together with local raw materials, within these limits and re-shipped to foreign ports without paying any duty, or to domestic ports in bond.

While Montreal occupies a commanding place in Canada's foreign trade, the trade in wheat and flour through it—it handles 80 per cent of the wheat exported via Canadian ports—is not in satisfactory shape. Of wheat and flour entering into Canada's export trade, 68 per cent are exported via Baltimore, Boston, New York, Philadelphia, and Portland.

162. *Opinion of Mr. Ross.*—In commenting on the fact that so large a part of the Canadian grain is moved by American channels to American ports, Mr. W. G. Ross, the chairman of the Montreal Harbor Commissioners, said recently that, while in the period 1908 to 1912 the wheat shipments from the head of the lakes to

lower Canadian ports increased about 40 per cent, the shipments to United States ports increased 180 per cent. He said, further, that while in 1908 Canadian lake carriers carried one-seventh of the United States' grain, in 1912 they carried less than 1 per cent. He considers that until there is a greater balance of Canadian traffic westbound the unsatisfactory condition is likely to continue:

> . . . until Canada has a westbound trade, capable of supporting and warranting the building of vessels on a par with U. S. boats, she cannot control the carrying trade from the Canadian upper lake ports. With the development of the package trade westbound on the lakes the Canadian vessel owners built steamers to control it, and these carriers have been a factor in making Montreal a large grain-shipping port which can carry grain cheaper than the craft that only gets a one-way cargo, and then only in the spasmodic movement of grain sent East which reaches its full volume in spring and fall seasons. Until Canada furnishes a deep water channel to Montreal to tap her eastern coal fields, and supplies heavy westbound freight which is so essential to the development of the large carrying capacity lake steamers, equal in every respect to the large U. S. craft and capable of coping with them in rates, the U. S. will control the bulk of the grain shipments.

163. *Insurance and the St. Lawrence route.*—The harbor of Montreal is administered by a board of three appointed by the Dominion Government. One of the recommendations made by the Royal Commission on Transportation, in 1905, was that Montreal should be a free port, at which there should not be any port or dock charges other than those for dry dock or elevator facilities. This recommendation has not been carried out. From time to time the Harbor Commission raises funds

for harbor works and improvements. The Dominion Government guarantees interest on such portion of the bonded indebtedness as it from time to time determines. In order to meet the interest on the bonded indebtedness and meet other expenditures, wharfage rates are imposed. The commission finds it difficult to make revenues meet expenditures. It is in the difficult position that if it attempts through increased charges to meet expenditures, it will, by placing an additional burden on traffic, deflect it to other ports.

At New York the western produce has reached tidewater, while at Montreal eighty-six miles must be traversed before tidewater is reached at Three Rivers. Between Montreal and the ocean there intervene the waters of the lower St. Lawrence and the Gulf of St. Lawrence, which entail a journey of 986 miles. While the Montreal route to Liverpool has an advantage of 445 miles over New York, there has to be considered the higher insurance rates consequent upon the dangers of a landlocked route, which minimize the advantage of the shorter mileage. The crux of the situation is to be found below Montreal.

It would be of interest, if space permitted, to go into the history of the long and energetic attempt of the Canadian government to improve the St. Lawrence route. Beginning in 1841, the question of deepening the channel was undertaken. It has since been carried on, with the result that there is a thirty-foot channel.

The underwriters are disposed to charge up against the St. Lawrence route not only the accidents in the river, but also those which take place in the gulf. The government has carried on an aggressive policy of installing lights and various other aids to navigation, which have greatly increased the safety of the route. But

insurance premiums are still against the route. The following table presents the situation for a period of years in a comparative manner in connection with movements to points in the United Kingdom:

Year	From Montreal		From New York	
	Provisions	*Grain*	*Provisions*	*Grain*
1906—Average season rate,	32½c.	32½c.	15c.	17½c.
1907 " " "	32½c.	32½c.	15c.	17½c.
1908 " " "	32½c.	32½c.	15c.	17½c.
1909 " " "	35c.	35c.	15c.	17½c.
1910 " " "	31½c.	34½c.	12½c.	15c.
1911 " " "	25½c.	30c.	12½c.	15c.
1912 " " "	23c.	25½c.	12½c.	15c.

The rates quoted are in cents per $100 insured.

There is also a similar disadvantage in case of tramp steamers with full cargoes of grain. From Montreal, the average season rate in 1912 was 61 cents, while from New York it was 50 cents.

While there is a disadvantage in point of insurance, it is a matter of satisfaction that there has been a fairly steady decrease in the insurance rates since 1900. Between 1900 and 1912 the insurance rate on grain has been reduced 45 per cent.

164. *Subsidies of steamships.*—Aside from local and Canadian coasting steamship services, which receive subsidies to the amount of $305,000, the Dominion of Canada grants subsidies to ocean-going vessels totaling 1.9 millions of dollars. The lines of trade which it is sought to aid and develop may be gathered from the following percentage summary of the distribution of the aid according to the leading countries and routes assisted:

	Per cent
Canada and Great Britain	37.5
" " South Africa, Australia and New Zealand	25.5
" " Cuba, Mexico, West Indies and South America	19.3
Canada and France	10.2
" " China and Japan	6.2

The general supervision of the subsidy contracts is under the Minister of Trade and Commerce. The contracts provide for the number of voyages per season; the ports of call, and also additional ports of call to be designated by the Minister; the minimum speed, etc. General provisions of the contracts may be summarized. Two-thirds of the officers and crew of each ship are to be British subjects; the ships are to be seaworthy, and have proper accommodation for comfort and safety. Provisions are made regarding the carriage of mails. Freight and passenger rates are to be approved from time to time by the Minister, who may also fix maximum rates. When freight and passengers are carried to St. John or Halifax, these, unless otherwise specifically routed, are to be routed over the Intercolonial, provided its rates are not in excess of those of other railways from the same points. The Minister is to be the final judge as to whether the terms of the contract have been complied with, and may terminate it on 30 days' notice.

165. *Factors affecting ocean traffic and rates.*—There are two main classes of ocean vessels—line boats and tramps. The first class consists of vessels belonging to a regular line—that is, a group of vessels plying over the same route voyage after voyage and having more or less regular times of sailing. Tramps have no regular routes, nor have they regular times of sailing, but go from port to port seeking business. A tramp is gen-

erally chartered or hired for one voyage at a time, although some charters cover a series of voyages of even one year or more.

Many examples might be given of the variety of ports and routes. A ship left London with goods for Colombo, Singapore, and certain Japanese ports. Going thence to Java, a cargo of sugar was loaded for New York. From New York it took merchandise for twenty-six ports on the west coast of South America. Thence, with a cargo of nitrate of soda, the ship returned to Baltimore. It then proceeded to New York to take on a cargo of general merchandise for Australia and New Zealand. At least two years would elapse before it reached its home port. Another vessel sailed from London with a general cargo for ten ports in Japan. It then journeyed in ballast to Java, where it took on a cargo of sugar for Philadelphia. Coal was taken from Philadelphia to Havana; thence it sailed in ballast to Galveston, taking on a cargo of cotton for Liverpool. These journeys covered about eleven months.

A Swedish tramp comes in light into Sydney, Cape Breton. Thence it journeys around the Horn with a cargo of steel rails to Prince Rupert for use in the construction of the Grand Trunk Pacific. But little traffic offering there, it will then go south to Vancouver or to the Puget Sound ports looking for cargo.

166. *Charter party.*—The document containing the agreement between the shipowners and the charterer is called a charter party. Usually under it the owner of the ship hires the officers and crew, paying their wages and providing their food, while the other expenses of the ship are paid by either party, according to the terms of the charter party. Various forms of charter parties

exist in the trade of North America, according to the commodity to be carried. There are, for example, forms for cotton, grain, pitch pine, naval stores, West Indian fruit.

The terms of the Anglo-American cotton charter party, which was adopted by the Chamber of Shipping of the United Kingdom in 1895, may be referred to because of the importance of the British cotton manufactures. It sets out the name, net tonnage and class of the ship; the latter affects the rate of marine insurance. On account of cotton loading light, the vessel has to have provision for water ballast. There is a guarantee of the ship's carrying capacity. In order to economize cargo space the vessel sails from Galveston or New Orleans to Norfolk or Newport News, taking on there the amount of coal necessary to take it to the western coast of Europe. If the vessel is going to the Baltic it must take in further supply of coal in the United Kingdom. The object is to lessen the amount of space taken up by coal on each portion of the journey.

Provision is made for the time to begin loading; also for "lay days," demurrage, and despatch money. Lay days are the days allowed for loading. Demurrage, which need not be defined here, is at the rate of 4d. per net ton for each free day after the expiration of lay days. Despatch money is a payment allowed the charterer for each day saved in loading within the lay day period.

Provision is also made for the division of port charges and other expenses. The ship is paid at a defined rate per net register ton regardless of the amount of cargo loaded. If not loaded to full capacity, the charterer has to pay, in addition to the freight on the cargo ac-

tually taken, a sum to cover the loss due on account of the unused cargo space.

The charter party also sets forth the liability of each party in the case of fires, accidents, or strikes, and gives the ship permission to sail with or without pilots, and to deviate from its course to aid vessels in distress. Provision is made for arbitration of disputes arising between the parties. The penalty for non-performance of the agreement is limited to actual proven damages not exceeding the amount of freight due under the charter party.

167. *Space and weight.*—Freight rates are fixed either on the basis of the measurement ton of 40 cubic feet or on the long ton of 2,240 pounds. A vessel may be measured:

(1) By its gross tonnage, which is its entire cubic contents as measured in tons of 100 cubic feet;

(2) By its net tonnage, i. e., the gross tonnage less all space used for purposes other than the accommodation of passengers and freight;

(3) By the dead weight capacity, i. e., the weight of cargo which may be loaded without sinking the vessel too low in the water for safety. The load lines, as established by the British Board of Trade, include one set for fresh and one for salt water, and are marked on the outside of the hull about midway between the stem and the stern. For each kind of water there is a summer and a winter load line, the latter being lower down on the ship's side than the former.

(4) By the displacement tonnage which is the weight of a ship and its contents when immersed to some fixed depth.

The gross tonnage is about 50 per cent greater than the net tonnage; i. e., a vessel with a net tonnage of

3,000 tons would have a gross tonnage of 4,500. The carrying capacity in terms of weight tons is about 50 per cent in excess of the gross tonnage; in the case in point it would be 7,250 tons. The net tonnage is figured on the basis of 100 cubic feet to the ton; the measured ton being 40 cubic feet, the measured tonnage capacity can be obtained by multiplying the net tonnage by 2½, which gives in this case 7,500 tons.

The "berth" traffic is a compromise between the work of a tramp and of a line boat. Where a boat is put "upon the berth" it makes a special voyage carrying various lines of cargo, the rate being worked out not as a price paid for the total carrying capacity of the vessel, but on the basis either of the cubic or of the measurement ton.

168. *Ocean traffic distinguished from railway traffic.*—Ocean traffic as distinguished from railway traffic is all through business. The average haul of the traffic passing through the "Soo" Canals is 840 miles, 3½ times the average haul on Canadian railways. It is impossible to say what the average ocean haul is, but it is manifestly very much greater than the lake haul referred to. In rail traffic, the relatively small vehicle, the car, is the unit; in ocean or lake traffic it is the vessel.

When in ocean traffic a vessel is chartered it is in effect a wholesale movement in trainload lots as compared with a retail transaction in car lots on the railway. Terminals, while on the whole less expensive in ocean business, are as important as in railway business. The control of docks and wharves may give the owner an opportunity to monopolize traffic.

169. *Effect of harvests.*—Ocean rates are affected by harvests. Argentina is an importer of coal. If there

is a large harvest, there must be a large volume of tonnage moving westward from Europe to carry the export grain. Consequently, there will be a large tonnage competing for the carriage of coal, which, on this movement, approximates the position of paying ballast. Conversely, the matter of return cargo is very important. While on account of limited exports by way of Vancouver and Victoria a large amount of tonnage moves out of these ports in ballast, there is at the same time the opportunity for the ships so moving to pick up grain cargoes for Europe in the ports of the Pacific Coast of the United States.

The increase which has taken place in the size of freight-carrying ocean vessels may be indicated by saying that a tramp may carry the total wheat crop produced on 15,000 acres, while the larger freighter can carry twice as large a cargo. The larger the amount that can be carried by a vessel the smaller need be the portion of cost which each unit of the cargo has to bear. The freighters can carry large cargoes at low speeds on an exceedingly economical consumption of coal. In a particular case a freighter with a dead-weight capacity of 5,000 tons, traveling at the rate of nine knots per hour, used only 20 tons of coal per day.

170. *Conditions of carriage.*—A broad distinction between the liability in rail carriage and in water carriage is that, while in the former case the railway is the insurer, in the latter the consignor or consignee must carry his own insurance. The following is a summary of the provisions of a typical Canadian export bill of lading. The ocean carrier is not liable for loss or damage arising from:

(1) Fire from any cause whatsoever, barratry of the

crew, enemies, pirates or robbers, constraint of law, riots, or strikes;

(2) Explosion, bursting of boilers, breakages of shafts, or any latent defect in hull, machinery, or appurtenances;

(3) Unseaworthiness of the vessel provided owner has exercised due diligence to make it seaworthy;

(4) Heating, frost, decay, rust, sweat, change of character, drainage, leaking, breakage, or by explosion of any of the goods, whether shipped with or without disclosure of the nature of the goods, or from nature of the goods, or insufficiency of the packages;

(5) Risk of craft, hull, or transshipment, or loss or damage caused by the prolongation of the voyage;

(6) Fault or negligence of the pilot, master or crew, or from latent or other defects in the vessel;

(7) The value of each package receipted for is not to exceed $100.00, unless so stated in the bill of lading; unless so stated the rate of freight is to be adjusted on the value stated.

Also:

(1) Delivery may begin on arrival; if consignee does not take goods from the steamer directly it arrives the goods may be landed or put in store at the owner's risk and expense;

(2) Full freight is payable on damaged or unsound goods; no freight is due on any increase in bulk or weight caused by the absorption of water during the voyage;

3) In case of claims for short delivery, the price shall be the market price at the port of destination on the day of the steamer's entry at the customs house less all charges saved;

(4) Parcels of different consignees collected or

made up in a single package addressed to one consignee are to pay full freight on each parcel;

(5) If the goods cannot be forwarded by the first steamer after their arrival at the port, they may be forwarded by a later steamer of the steamship line or by a steamer of another line if the carrier deems it necessary;

(6) The carrier is not liable for gold, silver, bullion, specie, documents, jewelry, pictures, embroideries, perfumeries, works of art, silks, furs, glass, porcelain, watches or clocks, in any respect, nor for goods of any description whatsoever above the value of $5 per cubic foot.

If the unseaworthiness of the vessel is not discovered by the exercise of due diligence, then the owner of the cargo has to contribute to general average with the shipowner. General average has been judicially defined in England: "All loss which arises in consequence of extraordinary sacrifices made, or expenses incurred, for the preservation of the ship and cargo comes within general average and must be borne proportionably by all who are interested."

In February, 1893, there was enacted in the United States the Harter Act, dealing with the liability of water carriers. It was concerned primarily (1) with the prohibiting of clauses which relieve shipowners from liability for consequences of "negligence, fault, or failure in proper loading, stowage, custody, care or proper delivery" of cargo, or which diminish the obligation to make the vessel fit for the voyage; (2) such clauses as exempt shipowners from liability for consequences of "faults or errors in navigation or in the management" of the vessel as well as of certain other perils, in cases where they have exercised "due diligence to

make the said vessel in all respects seaworthy and properly manned, equipped, and supplied." But the shipowner may limit the implied warranty as to seaworthiness by an express clause in the bill of lading.

171. *Ocean rates as affecting Canada.*—On May 5, 1913, Mr. Meighen, now the Solicitor-General, brought to the attention of the House of Commons the situation in regard to ocean rates as they affect Canada. He quoted a table of rates on dry goods from British ports to Montreal, pointing out that between 1910 and 1912 these rates had on particular items increased from 20 per cent to 60 per cent; and he drew special attention to the increase in rates on grain and flour, emphasizing the spread between these commodities.

Later in the year the chairman of the board was appointed a commissioner to proceed to England to go into the matter with the British Government. His report to the Canadian Government in the matter has not yet been made public.

The Canadian producer is vitally affected by the spread between wheat and flour. Between 1907 and 1912 the spread as between wheat and flour averaged 1.52 cents to 3.85 cents per hundred pounds. In the early part of 1913 it was increased to 7 cents.

If the per capita consumption of flour is taken at 5.3 bushels, which is the average in the United States, the approximately 7,500,000 people in Canada will consume 39,750,000 bushels. The exports of flour for 1912 were 3,378,836 barrels, or 17,759,471 bushels. This accounts for 57,500,000 bushels of wheat, or 42½ per cent of the capacity of the existing mills per year.

The milling capacity of Canada at the end of 1912 was:

Province	No. of Flour Mills	Daily Capacity in Barrels
Nova Scotia	31	905
New Brunswick	47	1,755
Prince Edward Island	20	735
Quebec	39	14,610
Ontario	362	61,123
Manitoba	53	16,135
Saskatchewan	41	7,420
Alberta	33	7,345
British Columbia	8	1,180
	634	111,208

Up to the end of 1913 the daily average capacity increased to about 125,000 barrels.

From the standpoint of the farmer it is urged that the existing spread as between wheat and flour facilitates the milling of the wheat in England. It is urged that with greater milling in Canada there would be a demand for wheat the year round at the mills instead of the present congested rush to the head of the lakes, which congestion breaks the price. Not only would such greater milling be advantageous, as steadying the price; it would also have an advantage from the standpoint of diversifying farming, since the offal would be available for the feeding of live stock.

172. *Lumber rates.*—Complaint is also made of the increase of rates on lumber from Canada to British ports, the increase from 1908 to 1912 being placed at approximately 40 per cent. On the import of crockery and dry goods to Canadian Atlantic ports from British ports the following detail is presented:

	Winter 1907–08	Winter 1909–10	Summer 1910	1911–12	1912–13
Crockery	10/ per ton w't	15/	17/6	20/	22/6
Dry goods	15/ measurement	17/6	22/6	25/	27/6 in boxes

173. *Position of carriers.*—A summary of the ocean carriers' position as to the difference in rates between

wheat and flour may now be given. The stevedoring and handling on the dock in Canada per gross ton and the wharfage payable by steamer per gross ton amount to 9 cents on grain and 49 cents on flour. A ton weight of wheat will stow in forty-seven feet, while flour takes fifty-five feet; that is to say, on flour there is a loss of one-sixth in space. Flour is more valuable, and claims for damage thereon average 1 cent per one hundred pounds, while no claims arise on wheat. Grain rates fluctuate. Wheat has often been carried for stiffening purposes at a low rate.

The low grain rates are found in March, April, August, and the first half of September. The fluctuations in March and April are due to the near approach of the opening of lake navigation. In August and September they are due to the light movement.

Grain can be loaded at the rate of 12,000 bushels, 325 gross tons, per hour. It takes four times as long to load and three times as long to unload flour. Flour has to receive special stowage, as contact with certain forms of cargo—such as apples, cheese, provisions, etc.—will probably result in claims for tainting. In support of their contention that the existing rate adjustment places no serious obstacle in the way of Canadian flour trade with England reference is made to the following figures:

Imports of United Kingdom from:

(1) Canada:		
1908	1,529,122	cwt. of flour
1912	4,003,877	" " "
(2) United States:		
1908	9,958,000	" " "
1912	4,412,000	" " "

174. *Rate "conferences."*—The complaints regarding ocean rates take especial cognizance of the "conferences" or agreements existing as to rates. The

North Atlantic conference covers the principal steamship lines from British and northern continental ports to North America. The conference arrangements, which began about 1901, were at first concerned with steerage rates, each company being allotted a portion of the traffic. Now they cover both passenger and freight rates. There are many complaints that the conference arrangements have made the importance of tramp vessels practically negligible as a regulative factor.

On the western movement to Canada from the United Kingdom the Canadian lines in the North Atlantic conference issue a tariff for the different seasons. The tariff is so drafted as to cover practically all the important commodities moving. On the eastern movement from Canada weekly lists of rates are issued. Under such an arrangement it is practically impossible for the shipper to make his arrangements any considerable time in advance.

In general it is contended (1) that there is very little high-priced package freight exported from Canada; (2) that in exports many one-time revenue-producing commodities have either disappeared or are shipped in diminishing quantities, owing to increased home consumption, as in the case of provisions, or in imports, competition of domestic manufactures—such as cotton goods and metals.

It is also contended that reduced quantities of general cargo necessitate the burden being put on grain, flour, and lumber, which are the only considerable revenue-producing articles.

Reference has already been made to the amount of tonnage moving in and out in ballast. Taking the figures of the tonnage carrying freight inward and outward, converting these into terms of freight carrying

capacity, and also expressing measurement tons in terms of weight tons, in accordance with the calculations already given, the following results are available:

INWARD			OUTWARD		
Freight Capacity in Millions of Tons	*Measurement and Weight Tons Expressed in Terms of Millions of Weight Tons*	*Per cent of Capacity Occupied*	*Freight Capacity in Millions of Tons*	*Measurement and Weight Tons Expressed in Terms of Millions of Weight Tons*	*Per cent of Capacity Occupied*
19.1	3.3	11	17.9	5.9	33

175. *New ocean routes.*—The importance of grain in its export trade has caused Canada to concern itself with new routes. The Canadian Northern and the National Transcontinental will, in the grain shipping season of 1914-15, be carrying grain east to connect with the established rail routes of Ontario. This will redress the evil Sir William Van Horne picturesquely described when he said that Canada had enlarged the hopper without enlarging the spout. Every mile of line built west of Fort William, with its attendant opening up of the country has, so far as the product of this new section had to be carried all rail to the seaboard, attracted still further attention to the weak link in Canada's transportation system — the single line around Lake Superior.

176. *Hudson Bay Railway.*—The Hudson Bay Railway has been undertaken with a view to affording a short line for export via Hudson Bay. The line is now in process of construction. What the traffic fortunes of this route will be is a matter of speculation. No considered opinion can be expressed. The grain moving will only to a very slight extent be moved out by this route in the season in which it is harvested, and

will, therefore, have to be carried over to the next season with attendant elevator and interest charges.

It is improbable that the route will attract tramp freighters. For a time, at least, the great preponderance of traffic being eastbound, the eastbound movement will have, in great part, to pay for the westbound empty movement. It would appear as if a special type of vessel construction would be necessary for the passage through the straits. Insurance rates are against Montreal. In the case of a new route, like the Hudson Bay, where the underwriters have not before handled risks, they will undoubtedly discount every possible risk.

There is also a project to make the Hudson Bay Railway a link in a rail and water route within Canada for moving grain to the east. The movement would be by rail to the Bay terminal, thence by water to the Nottaway River, on James Bay, where a connection can be made with an extension of the Temiskaming and Northern Ontario Railway. The North Railway has also a charter to build from this point to Montreal.

177. *Pacific route.*—While the Hudson Bay route attracts the attention of Manitoba and of Saskatchewan, Alberta and British Columbia look to the Pacific. What the grain future of the Peace River country may be it is difficult to say; but it would appear that grain grown there would be too far west to stand the rail haul to the head of the Lakes. To go east to Europe, it will have to go west to the Pacific. The low grade lines of the Canadian Northern and the Grand Trunk Pacific, which will be completed in 1914, will afford outlets at Vancouver and Prince Rupert. An elevator is to be constructed at the latter point. Such a grain movement will afford that balance of export, the lack of which is

at present detrimental to British Columbia's ocean rates. It is not yet clear whether the grain will be handled in bulk, as on the Atlantic, or in sacks, as on the Pacific Coast of the United States.

The export from British Columbia will, in part, be concerned with the development of trade with Japan and China. While there will, no doubt, be a movement east by way of the Panama Canal, no considered opinion can be expressed as to the amount of the movement. As against the Panama route, there is the disadvantage that on account of the grain passing through the warm humid climate of the Panama belt, there will be a danger of the grain "sweating." It is claimed that this can be overcome by bagging; but this will add to the expense of carriage. From Montreal to Liverpool is a distance of 2,939 miles by way of Cape Race; by Belle Isle it is 2,768 miles; from Vancouver it is, via the Panama Canal, 8,676 miles, or a distance greater than the route by Cape Race by 5,737 miles. During 1912 the ton-mile rate from Montreal to Liverpool averaged on grain 0.112 cents or $3.31 per ton. If the same ton-mile rates were applied to the extra distance from Vancouver, it would given an additional charge of $6.42 per ton. To carry at the same gross rate as the Montreal route, Vancouver would need to have a ton-mile rate of 0.038 cents per ton mile. This, of course, is on the basis of existing rates. What change may be brought about by the increased ocean tonnage attracted by the new route, it is impossible to say.

178. *Panama Canal.*—There is not only the question of the effect on rates outward from British Columbia; there is also the question of the rate readjustments between eastern Canada and the Pacific Coast. Professor Emory R. Johnson, who has been a member of the

Panama Canal Commission, and who is the acknowledged expert on the traffic and rates of the Panama route, estimates that probably less than 20 per cent of the trade of the Pacific Coast of the United States, going east by rail, reaches points east of Buffalo. The direct influence of the canal, so far as the United States is concerned, will be on the coast to coast traffic. This traffic is only about 20 per cent of the total traffic of the United States, and it is already affected by water competition.

It is probable, however, that the influence of the water competition will be felt to a considerable distance west of the Atlantic seaboard. Again, it is estimated that fruits can be handled through the canal from California to New York in fifteen days. On a movement of oranges to Buffalo, there would be the rail haul to San Pedro, steamer to New York, and thence by rail to Buffalo. High-grade commodities may be attracted to the water route by an actual shortening in the shipping time; the average rail movement of freight from New York to San Francisco now requires thirty days.

Professor Johnson summarizes his position as to probable changes in trade routes as follows:

1. The Atlantic section of the United States will obtain a somewhat larger share of the trade of the Pacific Coast, and will secure more benefit from the cheap water route than the Middle West.

2. Inroads on the trade of the Middle West will not be serious, because:

   (a) The Middle West has now an established hold on Pacific Coast trade.

   (b) Aided by changed rail rates, they can probably compete with the Atlantic Coast. The Middle West will lose a part, not all, of its trade with Pacific sea-

board cities, but may hold its Inter-Mountain trade.

(c) Rail lines east of the Alleghany Mountains may make special rates from the back region to the Atlantic for Western traffic. Rail lines to the Gulf will draw traffic from Kansas City, Memphis, and St. Louis.

(d) Chicago and cities of this region may be assisted in building up the Inter-Mountain trade by the railroads.

3. The canal will assist the Pacific States in trading with the Eastern and Southern parts of the United States.

It will appear, then, that one must speak with hesitation as to the definite effects on Canadian rail rates of the new route. In eastern Canada, the maximum rates from interior points to the Pacific Coast will be held down by the rates to the Atlantic seaboard, plus the seaboard rates to the coast. This will bring about various readjustments in the basis of rates.

Between Sudbury and Winnipeg there is in general at present a break in productive and distributive territory, broken only by the two centers of Fort William and Port Arthur. In the United States there is not the same gap.

In British Columbia the rates to interior points are, as has been indicated, built up on the "pull-back" system. If the compelled rates to the coast are reduced still lower by the competition of the new route, the combination of the coast rate plus the local back will be effective as a maximum still further east, thereby controlling the direct rates from eastern Canada to such points. While it does not follow that the local rates will be automatically reduced, it is probable that the result will be to increase the distributing territory of the Pacific Coast cities. Possibly there may be a blanketing some distance east from the coast.

Such a readjustment will bring before the railways the question of a readjustment of the relationships between the various distributing centers of the prairie provinces. Again, the trade competition between distributing centers in eastern Canada and those in the prairie provinces will bring before the railways the question of further readjustments. How it will work out it is impossible to foretell.

If ocean shipping and freight tonnage are attracted in increased amount to British Columbia, this and the development of grain areas nearer the coast may affect grain rates as far east as a line drawn north and south through Regina, at which point the competition of the Hudson Bay route will be a factor. This would mean that the Fort William rate and the coast rate would meet about this point. There will probably be a certain zone of indifference about this line from which grain may move east or west according to variations in rates. It must be recognized throughout that any opinions as to probable readjustments will have to be checked by experience. It is impossible, however, to bring about rate readjustments in general rates in one section without vitally affecting rates in adjacent areas.

The Tehuantepec route has been overshadowed by the discussion concerning the Panama Canal. The former route, which has been in operation since 1907, has the following distances: From New York to San Francisco via this route is 4,626 miles; the rail journey across the Isthmus is 192 miles; from Montreal to Vancouver the distance is 6,992 miles as against the all-rail route of 2,897 miles; from Halifax to Vancouver via this route is 6,001 miles.

This route is undoubtedly a factor to be considered in the rate situation. To-day articles are laid down from

Antwerp, via this route, in Vancouver in 45 days. Goods from Michigan move to the Atlantic Coast and thence, via this route, to the Pacific Coast of the United States. It has the advantage of being one thousand miles shorter than the Panama. It is probable that with the opening of the latter route package freight movement of the former to the Pacific Coast of North America will be much curtailed.

While it has the disadvantage of being a break bulk movement, this does not entirely rule it out of the running as a grain route. The haulage of grain across the Isthmus of Tehuantepec would aid in aerating it and so assist in rendering possible a bulk movement. With improved loading and unloading devices, hopper bottom cars, etc., unloading direct into the vessels at the Atlantic terminal, costs could be reduced. The Panama Canal will be a steamer route. Sailing vessels can make the termini of the Tehuantepec route. With improved facilities there may, if a considerable bulk of grain moves via the Pacific Coast, be an appreciable movement by the Tehuantepec.

The advocates of the Panama route, however, see only a local future for the Tehuantepec, primarily in connection with the coastwise movement up and down the coast of Mexico and of Central America. The criticism from this standpoint is summarized in the words of Professor Johnson, who says:

> These differences in distance will not enable the Tehuantepec route to compete with the Panama Canal. The average cost of transferring freight from the hold of a ship on one side of the Isthmus of Tehuantepec to the hold of a ship on the other side could hardly be brought below $2.50 per ton. . . . A toll at Panama of $1.00 per vessel ton, net register, would amount to about 50c. a ton on cargo; and thus the cost of getting cargo

from ocean to ocean would be at least $2 per ton greater. . . . The double handling of commodities, with the unavoidable breakage and damage incident thereto, would further place the Tehuantepec route at a disadvantage in competing for traffic against the through service, without breaking bulk, by way of the canal. Moreover, the time required to handle freight from New York to San Francisco would be but little less via Tehuantepec than via the canal. As vessels require about two days to discharge and two to load, the average detention of traffic, due to transfer from ocean to ocean across the Isthmus of Tehuantepec, will be about four days. A ship can pass through the canal in less than half a day; and should another half day be taken for coaling, the total detention will not exceed one day.

QUIZ QUESTIONS

(The numbers refer to the numbered sections in the text)

PART I. SELLING AND BUYING

CHAPTER I

1. Discuss the importance of selling methods in a factory. Why is the problem becoming more difficult of solution? What influence have modern competition and advertising on the question of distribution?

2. Name the six factors in the former distribution methods. Which have lost their distinctive functions?

3. Define consumer. What difficulties may arise in deciding who is a consumer?

4. Define retailer. How is he different from the distributor?

5. What is a jobber? What was the early distinction between a jobber and a wholesaler? What is the difference to-day? Is this distinction generally recognized?

6. What does the term "manufacturer" include? Are the following manufacturers: Farmer, miller, baker, publisher, the one-man factory, the American Tobacco Company? How may a manufacturer have no part in the problem of distribution?

7. When may a business house be a wholesaler as well as a manufacturer? What is a semi-jobber?

8. What are the two phases of the problem of selling?

With which one is the retailer most concerned? How is his market determined? What are the three ways of distributing goods at retail?

9. Explain why the early traveling merchants may be considered as the originators of the merchandising system?

10. What is the characteristic feature of the peddler's business? What is the advantage of the business and why is it limited?

11. What are the advantages and disadvantages of selling through a canvasser? When may this method be successfully employed? Must it always be on a small scale?

12. What is a specialty salesman? How is he distinguished from the canvasser? Give an example of a specialty salesman. In what lines of business, for example, are specialty salesmen necessary?

CHAPTER II

13. Describe the historic development of the retail store. What is meant in the text by the "typical retail store"? How is it limited?

14. State seven advantages of selling through a retail store. Discuss these in detail. How may the retail store often hold its trade? How may it be a factor in the community? Why may it be more liberal in granting credit than the larger houses?

15. State four disadvantages of selling through a retail store. Why is the growth of trade limited? Is it affected by competition with the mail-order houses?

16. Why are generalizations impossible concerning the relative advantages of the retail store and the mail-

order house in respect to cost of distribution? Where, if at all, does the advantage of the latter lie?

17. Why do some manufacturers prefer to sell to jobbers? What effect does buying capacity have on the price? In what one way does a large mail-order house have more advantage than a retail store? When may the latter be quite as successful in getting prices?

18. Discuss the development of the mail-order system. What two commercial developments have fostered its growth?

19. State nine advantages of retail selling by the mail-order method. Is the field limited? Why do local business depressions not affect it? How may expenses be decreased? Is credit given by mail-order houses?

20. What part does advertising play in the mail-order business? What sort of opposition as well as competition must be met? Would the parcels post be of advantage to mail-order houses? State four disadvantages of retail selling by mail-order method.

21. May the three methods of retail selling be combined? If so, can it be done only by the larger houses? What are the advantages of such combination?

CHAPTER III

22. Why is it usually inadvisable for the jobber to try to sell both to dealers and to consumers in the same locality?

23. State two methods of wholesale selling. Which is the more common?

24. What advantages does the jobber get by sell-

ing through representatives? Discuss in detail. How do the salesmen help in collections, in getting information, in gaining the confidence of the buyer and making large sales?

25. What are the advantages of wholesale selling by mail? What risks of selling through salesmen are avoided?

26. Why is the combination of the two methods particularly desirable?

CHAPTER IV

27. What particular selling problems had the manufacturer? What are the only problems of the retailer and of the jobber?

28. Why is it important for the manufacturer to choose the class to which he sells? Why is a definite policy necessary for success?

29. What are the two chief factors in the determination of the market?

30. Give two examples of industries where it is better for the manufacturer to deal directly with the retailer.

31. Discuss the business policy of selling only through jobbers. Why have some manufacturers ceased selling to middlemen? What class of manufacturers prefer to sell to distributers and to consumers, and why? Discuss these questions in relation to the grocery, the iron and steel, and the publishing companies.

32. State and explain three advantages of selling only through jobbers.

33. State and explain three disadvantages.

34. How may the market be better determined in a

direct sale to the retailer? How is the manufacturer benefited by direct relations with the retailer? Give another advantage of such direct sales.

35. What opposition is met when a manufacturer sells to the retailer? Give and explain two disadvantages of such sales.

36. When is it advantageous for the manufacturer to sell directly to the consumer? Give at least two instances.

37. What are the objections to a "direct to consumer" business?

38. Discuss the methods by which a manufacturer may reach his market when he sells to jobbers, to retailers, to the consumer.

39. Why is there a tendency to eliminate the middleman? Show that this tendency is growing. Give three reasons. Explain.

40. Is the jobber likely to disappear from the merchandising system? What effect has he on the small retail store? Discuss carefully.

41. Define agent, commission merchant and broker. Where in the line of distribution do they come? Have they any peculiar selling problems? State four reasons for a manufacturer using the agent, etc., rather than a selling organization of his own.

CHAPTER V

42. Discuss in detail the organization of the sales department. How are its characteristics determined? Is there any typical retail or wholesale selling organization? Is the market to be reached of importance?

43. What are the three methods of selling goods at

retail? What two of them may be combined? Describe the organization of the department store.

44. What are the duties of the merchandise manager? What authority has he? Is he concerned with the sale of goods? Are his duties different in a factory? How are knowledge and ability best acquired?

45. Who are the buyers in a small establishment, in a department store? Have they any relations with the merchandise manager? What are their duties?

46. Are the sales people ever connected with the buying end of the business? To whom are they responsible? Who directs them? By whom is he assisted?

47. Are the floor-walkers ever responsible to the buyers? By whom are they commonly directed? What are their duties? Who is the sales manager? Discuss his duties in relation to those of the merchandise manager. Will there ever be a definite division between the buying and the selling functions in a retail store?

48. Discuss the relations between the advertising and the sales departments. What is the ordinary custom? Where does the authority of the advertising and of the sales manager often conflict? What is the tendency to-day?

49. Describe a selling organization for a wholesale house. Is there any typical organization?

50. Where there is departmentation in a wholesale house, what official has charge over all the department heads? What is his authority, and what relations has he to the buying and to the selling functions?

51. What are the duties of a department head?

52. Why are specialty salesmen necessary? By whom are they supervised?

53. Explain in detail the duties of the general salesmen, by whom they are controlled, etc. Upon who

should the final responsibility for all directions rest? What are the usual three classes of salesmen? Explain the duties of each. If there is a mail-order department, to whom is the mail-order manager responsible? Is such a man necessary in a wholesale house?

54. What are the advertising methods of a jobber? Is an advertising manager usually employed?

55. Of what importance to a wholesale house is the credit man? Does the scheme of selling organization confine itself to the relations of functions or of individuals? Explain your answer. Name four characteristics of every largely successful house.

CHAPTER VI

56. What are the three classes of customers for a manufacturer? Why can we have no typical method of selling organization? If a manufacturer reaches all three classes, what must his selling organization contain?

57. How does a manufacturer's selling organization differ from that of a wholesale and of a retail store? In a factory are the buying and selling functions closely connected? What is the basis of departmentation, if there is any?

58. In a manufacturer's organization, what are the duties of the sales manager? To whom is he responsible?

59. Who is directly responsible for the salesmen? If he has subordinates, who are they?

60. When are specialty salesmen employed by a manufacturer? Where is the place of all salesmen in the scheme of organization?

61. Describe the organization of branch-houses? What are the functions of the typical branch-house?

62.. What is the agent? Is he on the manufacturer's pay-roll? Is the manufacturer further interested when goods have been taken by an agent?

63. Does a manufacturer ever operate his own retail store? If so, describe its organization.

64. What is the place of the mail-order department in a factory?

65. Discuss the relations of the sales and the advertising departments. What is the purpose of commercial advertising? Why is it disadvantageous for the advertising manager to be subordinate to the sales manager? Is advertising selling??

66. Why are the credit and the traffic departments not essential parts of the selling organization? What is the main purpose of the credit man, of the traffic man? When do their duties begin?

67. What modifications of the organization plan given may be made when the manufacturer does not sell to consumers or to retailers?

CHAPTER VII

68. How does the efficiency of the sales department reach its highest development? How may co-operation between departments be encouraged?

69. Explain the importance of the human factor in gaining co-operation. How should the sales manager treat his subordinates? How may tact be encouraged in the business organization?

70. How may the employés be made to take a direct interest in the business as a whole? Will profit-sharing accomplish this? Discuss carefully.

71. What is the committee system? Will it induce co-operation? What does it accomplish, and how? Can it be used by manufacturers and by wholesalers as well as by retailers? Which organization has applied it most effectively?

72. What is the executive committee? Is it more important than the other committees? Of what officials is it composed? What may it do with matters brought before it? Does it aid co-operation? To whom is it responsible? Discuss the executive committee of a corporation.

73. Who makes up the factory committee? What representative should it certainly include? Of what value is it in co-operation?

74. What is the sales committee? What departments are represented? Discuss the majority rule as applied here. What is brought before the sales committee?

75. Describe the advertising committee. What authority has it?

76. Who makes up the office committee? How is the sales department represented?

77. What is the committee of principal employés? What is its purpose? How may it be effective? Discuss the system of committee organization.

78. What objections may be urged against the committee system? What are its practical results?

CHAPTER VIII

79. Discuss the purpose of the selling campaign. How does departmental co-operation help? Why has the retailer the least difficult problem to solve?

80. What one feature is common to almost all selling campaigns? In the campaigns of mail-order houses, how important is advertising?

81. What are the four main qualifications of a sales manager? Should he be drawn from amongst the salesmen? State his general duties.

82. How is the sales manager able to choose an efficient selling force? Should he decide purely by inclination?

83. How may system aid in the selection? Give a list of questions to be asked applicants. How are references looked up? What questions are asked his former employers?

84. What may be decided by a personal interview?

85. Of what importance is the question of appearance? Do clothes matter?

86. How much importance should be given to conversational ability?

87. Should a salesman know more than just his line?

CHAPTER IX

88. Discuss in detail the training of salesmen. Can goods be sold to-day simply on the personality of the salesman? In what three principles should the salesman be trained?

89. Is there a science of salesmanship? If so, how may it be learned? Is selling experience all that is necessary to make a good salesman?

90. Of what importance to the salesman is a thorough knowledge of his line? How are prospective buyers approached to-day?

91. Give and explain three methods of training salesmen.

92. What are the two advantages of having salesmen employed in the factory previous to making sales? Discuss in detail.

93. How may a salesman be trained in selling methods? Of what advantage is this?

94. How are the standard selling talks prepared? Of what advantage are they?

95. How may the standard selling talks be adapted for a variety of uses? What is the "school-room"?

96. How are the retail stores training their salesmen? Why have the jobbers been slow to follow? How may the sales manager keep his men efficient?

CHAPTER X

97. How should the salesman be supervised? Explain carefully.

98. State five ways of assisting the salesman in making particular sales.

99. State several means of interesting the salesman in general activities.

100. What is the importance of personal relations between the sales manager and the salesman?

101. How may the manager keep in touch with salesmen? What care should be used in making necessary reprimands?

102. Do competitive schemes promote selling efficiency? What is the quota system? How is it used? What are the difficulties in its use by jobbers? How may these be avoided? When is the system of chief value?

103. Show how house organs may be valuable aids in the selling organization.

104. Give four purposes for having selling conferences. Explain the value of each.

105. Besides the supervision of salesmen, what are the three main duties of the sales manager?

106. How are salesmen compensated? Which method of compensation furnishes the greater incentive to the salesman? Which is usually employed?

107. How are salesmen's expenses to be treated? Discuss several methods. Should a salesman "buy business"?

108. How should territories be assigned to salesmen? What is the limitation of the population unit of assignment?

109. How may the manager keep in touch with his men? Discuss various means.

110. Why is knowledge of the business important for the sales manager? What is meant by this phrase?

CHAPTER XI

111. What are credit reports? How are they prepared? Why are they important in selling?

112. State the five purposes of the direct reports from the salesmen. What data in the reports tends to accomplish these purposes?

113. Give the material contained in a typical report. Of what value is this to the manager?

114. To what extent must the salesman's power of observation be trained? Upon what items, outside of his particular line, should he report? Of what value to

the manager is such information? What is the most important result of a careful study of the report?

115. What is a town record card? Explain its use. What information is entered upon it? Discuss an efficient statistical system.

116. What is the salesman's share in promoting the efficiency of the sales department? What are the three things expected of the salesman? Discuss in detail.

CHAPTER XII

117. What is salesmanship? Explain its purpose, features and duties.

118. What is a salesman? May the owner of a plant be a salesman; the advertiser; the manufacturer; the promoter?

119. What are the four main steps in a sale?

120. Describe various methods of attracting the buyer's attention. Should a customer be approached on his "blind side"?

121. Having attracted the customer's attention, how may his interest be held? What is the value of specific language? Should the customer's point of view be obtained?

122. How may the customer be induced to want the goods offered? What is the best method of argument? How may suggestion be used in the salesman's argument?

123. How may the salesman close the sale? How may he retain the customer's good-will? What is the "psychological moment"?

124. What is the importance of these steps in a sale?

Must the salesman be conscious of them? Why should they be studied?

CHAPTER XIII

125. What are the three factors in a sale? Explain the relation between the factors and the steps in a sale.

126. Is the personality of the salesman important? Must a salesman be born and not made? What are the essential qualities of a successful salesman?

127. What are some false incentives toward entering the business? What is the true incentive?

128. To what extent does success depend upon the mental ability of the salesman? Is will power important?

129. What part has education in the making of a salesman? Is the best salesman always the most fluent talker?

130. Why is it necessary for the salesman to have good health? Are personal faults still excused by the manager if the salesman turns in a fair volume of sales?

131. Of what importance is the appearance of the salesman?

132. Why is honesty of especial importance in selling? Show why the salesman is especially liable to temptation.

133. Should a salesman believe in his work? Why must the salesman be sincere?

134. What is fidelity in salesmanship?

135. What is courtesy in salesmanship? Is it more than good manners?

136. Why is industry especially important in salesmanship? Has a salesman "working hours"?

137. Show that open-mindedness is a valuable asset to the salesman.

138. Why must a salesman have persistence?

139. Show that tact is especially important. How may a salesman cultivate tact?

140. Why is the salesman with initiative usually the most efficient?

141. What three subjects are included in "knowledge of the business"? Explain their importance. Why is it advisable for the salesman to be in touch with the home office? Why is it wise for him to be familiar with the methods and policies of his house? Why should he acquire knowledge of the competitive field?

142. Explain why a salesman should have confidence in himself, in his house, in the goods he sells. Show that it is the business of the salesman to be creating confidence in the mind of the customer.

143. Of what value is enthusiasm? How may it be worked up?

144. What are the opportunities for success in salesmanship?

CHAPTER XIV

145. Explain why buying is the universal business activity. Show how it enters into all lines of work.

146. What is the modern tendency in respect to the duties of the buyer? What is the relation of these duties to those of other employés?

147. What are the especial problems of the buyer? Why is the small order especially hard for the buyer?

148. How is the buyer often hampered in his work? Discuss the requirements of economical buying?

149. How may he avoid the temptation to purchase too heavily? What considerations limit the size of the purchases?

150. Why is it advisable for maximum quantity to be fixed for the buyer?

151. To what extent must depreciation be considered by the buyer?

152. Discuss the necessity imposed on the buyer to limit his purchases.

153. Is speculative buying ever permissible? How must the successful buyer treat this?

154. What are the four qualifications of the buyer?

155. What is meant by knowledge of the house by the buyer? What three things must he know in this connection?

156. What knowledge of manufacturing processes must the buyer have? Compare this knowledge to that possessed by a salesman.

157. Why is it necessary for him to be familiar with departmental needs of his house. Discuss.

158. Why should he know the important employés of the house? Give four items under the knowledge of the house which the buyer should know.

159. Explain why it is important for the buyer to know the market, the extent of the demand, possible competition, etc. In this respect why is the problem of the buyer of raw materials for the factory more simple than that of the buyer for the retail or wholesale store? Can this knowledge be systematized?

160. Discuss the especially difficult problem of the buyer for the retail or wholesale store.

161. What knowledge of values of the goods to be purchased should be possessed by the buyer? How

may he purchase intelligently? How may he acquire familiarity with raw materials and productive processes? How may he know selling costs, possible profits, etc.?

162. How may the buyer judge future prices? Why must such judgment be given with great care?

163. How may the buyer acquire knowledge of the sources of supply? What is included in this?

164. Why is the location of the houses from which he purchases of much importance to the buyer?

165. Is it necessary for the buyer to know the ability of the house from which he purchases to keep its promises?

166. Must he know the financial responsibility of the house with which he deals?

167. Show that it is important for the buyer to know productive costs before he agrees upon the price of the goods he purchases. Under what circumstances may he try to "beat down" the price?

168. Why should the buyer know the selling methods of the house with which he deals? Why do manufacturers sometimes make the list price higher than the one they would accept?

169. Show that the one price idea is gaining among buyers and manufacturers.

170. Why is tact an essential quality of the successful buyer in his relations with his own house and with others?

171. Why should the buyer cultivate friendly relations with the salesmen?

172. Besides tact and a knowledge of the business, what qualities should the buyer possess?

173. Discuss the importance of the buyer's position. Why does the owner often prefer to do the buying?

174. What two methods may be adopted by factories for their buying system? Explain the advantages and disadvantages of each.

CHAPTER XV

175. What are two general classes of buyers? Why is a universally applicable system of buying not possible?

176. State three requirements of an adequate purchasing system. What data should be classified?

177. Define and explain the subject index. What is its purpose?

178. What is the firm index and what should it contain? What is the meaning of "firm" as here used?

179. What records of possible suppliers should be kept by the buyer? What cross references should be made between the subject and the firm indexes? State and explain carefully two reasons for having the two indexes.

180. What is the quotation file, and how is it made up? What price data is included?

181. What information contained in the indexes mentioned is put in the order record? Give a typical order record card. Of what value are this record and the others to the buyer?

182. How are orders placed? What data does the order blank contain? How many copies of the order are made and to whom do they go?

183. In what manner may the buyer keep track of orders placed? What is the "tickler" file? How may the buyer know when the supplier's acknowledgment is received? How does he know when the goods are received?

184. When partial deliveries are made, what system may be used to keep track of the orders? What is the final result of any system of checking orders?

185. What data should the buyer enter upon the invoice sent by the consignor? What is then done with the invoice? Explain in detail the method of handling the invoice after its receipt.

186. How may the buyer know when purchases are necessary? What record is kept? What data is given on this record?

187. May the purchasing system given be modified? Discuss.

188. May the system given be applied to a retail store? If modifications are necessary, what should they be? Explain why a purchasing system is advantageous even to a small retail store.

189. Why should the jobber introduce a good purchasing system? What records should he keep? How should his system differ from that used in a factory?

PART II: CREDIT AND THE CREDIT MAN

CHAPTER I

1. What is the basis of all business relations?

2. In what respect does the law of contract support confidence? Why is credit sometimes defined as a "right of action"?

3. What relation does the medium of exchange bear to credit? Why is money a sign of economic progress?

4. What is meant by "credit economy"?

5. Wherein does "money economy" differ from "credit economy"?

6. What is the relation of bank credit to general mercantile credit? In what respect is the relation that the cash reserves of the banks hold to their outstanding credits, a guide to the commercial credit operations?

7. What relation does credit bear to panics? In what respect is a rigid credit giving standard helpful?

8. What is meant by the term "credit of limited acceptability"? What is meant by the term "credit of unlimited acceptability"? Differentiate between the former and the latter. Why is there a tendency for the demand of money to decrease when the use of credit is increasing?

9. What compels, nowadays, the business man to turn over his capital oftener? Wherein do long-time credits differ from short-time credits?

10. Define "investment credit," "banking credit" and "commercial credit." What are the advantages of credit in the various branches of economic activity of production, exchange, distribution and consumption?

CHAPTER II

11. What relation does "credit economy" bear to money?

12. In order of origin, which credit holds first place? What caused banking and commercial credits to develop rapidly?

13. Can a personal credit system be as well organized as a banking credit system? Why?

14. What are the reasons that cause some lenders to neglect making proper inquiries about borrowers? What part does the "business sense" play in such cases? What advantage does a merchant gain by a study of credit? Describe the "Indianapolis Plan." Name the three fundamental ideas that underlie the working of this system.

15. What are the effects of the extension of personal credit? How does it affect prices?

16. In what way does a "too ready credit" affect the consumer? Why is it asserted that the curtailing of credit among working classes would tend to raise them morally and economically in the scale of social betterment?

17. What connection is there between extravagance and credit? Explain the following statement: "The merchant should be more interested in the surplus which the customer can devote to the purchase of goods, than to the size of the bills for the rent of house and automobiles."

18. Why is the credit system complementary to the commercial system?

19. What were the factors that caused changes in the credit system? What effect has long-time credit on prices?

20. What is meant by the term "dating"? Why is it regarded by some as detrimental to a sound credit system?

21. Differentiate between the terms "dating" and "book account." What caused the rise of commission houses dealing in book accounts?

22. In what ways are book accounts usually assigned? Which is the most preferable method from the borrower's point of view?

CHAPTER III

23. Differentiate between "consumptive" and "investment" credit. Define "long-time investments."

24. Mention a few of the elements of safety in capital credits.

25. What are the principal forms of capital credit? What is the relative percentage of investments in "industrials" as compared with investments in "railroads"?

26. What are the principal sources of capital funds?

27. What relation does banking credit bear to commercial credit?

28. What are the limitations of bank credit?

29. Is the field of credit operations open to a bank dependent upon the degree of convertibility among credit instruments?

30. Define the term "business paper." What is meant by a "single-name" paper? What by a "double-name" paper? Define accommodation paper.

CHAPTER IV

31. What elements must be emphasized regarding the nature of credit? What are consequently, the functions of a credit department? Can a general hard rule be laid down as to information that would fit all lines of business? What, in the last analysis, are the main factors forming the basis of credit?

32. Name the two most important considerations in connection with an estimate of a wholesaler's credit. What is the practice of the Chicago wholesale house with respect to its customers? What other factor, be-

sides the business getting quality of a consumer, is to be taken into consideration?

33. Why is the manufacturer in a more favorable position in choosing his customers, than the wholesaler? How is the manufacturer handicapped in his direct trade with the consumer?

34. Upon what consideration does the retailer base his opinion of the trustworthiness of a customer? Is there any compensation for his uncertainty?

35. What are the provisions of the installment plan?

CHAPTER V

36. State the three essentials of business credit; which is the most important one?

37. State the two methods of investigation open to the credit man; describe the direct way of getting information. What is the advantage of a statement presented by the applicant?

38. What are the factors making the average business look upon a financial statement with distrust? Where is the method most usual? State briefly the difference between Form I and Form II. State briefly what facts the creditor is interested in when requiring the prospective customer to fill out the Property Statement Blanks, and point out the differences between them. What principle should be applied by the credit man to the various assets appearing on a statement?

39. Illustrate the analysis of a statement by a comparison of the items with the general business situation. Taking up rent, should we compare it with profits, general expenses or capital? Why?

40. Who takes usually the place of the credit man

in out-of-town investigations? Describe the methods of inquiry by a reporter. Under what conditions is a traveling representative employed? What is the advantage of using this expensive method?

41. Why is it not a sound policy to combine the two offices of salesman and credit man in one person? What information may be easily supplied by the salesman? By whom is that information obtained in case of concerns selling through branch houses?

42. Describe the commercial agency method of getting information. What are the two other informants at the disposal of wholesale houses?

43. What is the history and present standing of the two largest commercial agencies?

44. Describe a system of collecting information by a standard commercial agency. How are reports on unexpected changes procured?

45. What are the contents of an agency's report? How is a special report obtained and transmitted?

46. How is general information about merchants and ratings distributed? What does a special report contain? Of what use to the merchant are the weekly reviews? What do they contain?

47. What privileges are extended to agency members? At what cost?

48. What are the agency's sources of information? Why is it essential that the statements obtained from firms be signed by some member that is legally responsible for the firm?

49. Into how many kinds are the reports divided? Upon what elements are these divisions based? How does capital rating affect credit rating?

50. Explain the following: "All risk is a result of lack of knowledge." What is the purpose of agency

reports? What are the usual complaints made against mercantile agencies?

51. What are the causes that brought forth co-operative credit methods? Describe the contents of the form referred to in this section. What were the rules proposed at the 1911 Convention of Credit Men? Describe briefly the plan of operation used by the Columbus association of credit men.

52. What are the advantages of the interchange system?

53. To what extent does a local bank or a local attorney serve indirectly as a medium of getting credit information?

54. To what extent do results of litigations tend to gauge the credit standing of a merchant?

CHAPTER VI

55. What serves to support the structure of the credit system from the outside and in what respects? What is the general principle underlying every form of insurance?

56. How does the general principle apply to credit insurance? How does the insurance company determine its risk in this case? Illustrate by example.

57. How does a credit underwriting company classify its applicants?

58. State the arguments in favor of credit insurance.

59. State the weak points in credit insurance.

60. Upon what fundamental principle are the laws of bankruptcy based? Upon what presumption are the bankruptcy laws of the present day formed as contrasted with early insolvency laws? What were the

disadvantages of the creditor in absence of a national bankruptcy act?

61. State the advantages of the present bankruptcy law.

62. State the amendments to the bankruptcy law passed in 1910, their meaning and importance to the business world.

63. What steps have been taken by various business associations to aid the effective administration of the present national bankruptcy law? Why is the latter *satisfactory to* the business community?

64. Why was co-operation originally opposed by credit men? State the arguments for common action.

65. Which was the first national credit organization? State the objects of that association. By what means does it further its ends?

66. By what reasons do the credit departments of every line of business act as the points of nearest approach between the various business units?

67. State the relation of the sales department to the outsider; in what relation does the collection department stand to the public? In what relation does the credit department stand to the other departments of a concern? What data does a well organized credit system take care of?

68. Describe a suitable method of handling the incoming mail in a wholesale concern. Why is a card system most convenient for the credit department? What is the object of having differently colored cards? How is delay avoided in filling orders of new customers? Describe a system showing the close connection between the credit department and the other departments. What is a "tickler"?

69. What is the universal policy every collection de-

partment should adhere to? State the successive steps in the collection of an account.

70. How should a delinquent account be treated? Why is it of importance that the credit man should pay close attention to debtors who failed to meet their obligations?

71. What helps the credit man in analyzing the financial statement of a prospective customer? What questions should, according to Prof. Bollse, the man unfamiliar with accounting ask when analyzing a statement? What additional questions would Mr. Thorne ask? Is the amount of capital the only criterion by which to determine the basis of credit? Show by example how the kind of assets, i. e., the nature of capital, and the proportion of assets to liabilities, should affect the amount of credit to be extended to a customer.

72. Explain the nature of the advantage arising from membership in a Canadian credit association. In what way do these credit associations protect an honest debtor who has gotten into temporary financial difficulties? What reasons can you suggest for the ease with which long credits have hitherto been granted in Canada?

73. What are the defects of the general bankruptcy procedure in Canada? Why do business men so easily abandon bad debts? What definite plan would you suggest for protecting creditors against dishonest debtors in Canada? What are the particular difficulties in the credit situation in the prairie provinces?

74. Why is only a small part of the debt of an insolvent estate secured by the creditor? What objections can be made to the work of liquidators in the Province of Quebec? Why does not the average small creditor interest himself in creditors' meetings? Draw up a statement of failures in Canada within the last six

months, and comment on the causes for the same. What part do credit associations play in protecting creditors?

75. Explain in detail the good features of the English bankruptcy laws. To what extent should those principles be adopted in Canada? Explain the necessity of a uniform bankruptcy law for the whole of Canada. What is the relation between credit institutions in Canada and the country's general progress? Show the importance of confidence as an element in credit, and the bearing of that feature upon the problems that arise in bankruptcy.

PART III: TRAFFIC

CHAPTER I

1. What was the influence of its waterways on the early development of Canada?

2. What was the next development in the transportation routes of Canada? Where were the first "grand trunk roads" built?

3. What was the first Canadian railroad? What important roads were built before Confederation?

4. What was the prime reason for the building of the Canadian Pacific?

5. Compare the recent expansion of Canadian railroads with the growth of American railways. What has been the tendency in Canadian railroading lately?

6. How has the building of the trunk lines influenced railway development in Canada?

7. Locate some of the Canadian railroads.

8. What are the freight resources of this territory?

9. Compare the distribution of the population in the provinces with the distribution of the railway mileage.

10. What may serve as an index of the potential railway traffic? What percentage of this traffic is furnished by each province?

11. How does the actual traffic compare with the potential traffic?

12. Describe the traffic interrelations of Canada and the United States.

13. What is the volume of this traffic? What is its effect?

CHAPTER II

14. Why is classification necessary? Give examples of some of the early classifications.

15. How does it happen that different classifications may be in effect on different parts of the same road?

16. Discuss classifications in the United States.

17. Discuss the Canadian classifications.

18. What classifications apply in traffic between Canada and the United States?

19: Why has the Canadian classification been expanded?

20. Why is the carload used as the unit in determining carload differences? What are the regulations regarding carload ratings?

21. What are the measurements of the standard box car? On what basis is the minimum carload increased?

22. What are the arguments for and against higher rates on L. C. L. than on C. L. shipments?

23. How have the Canadian Freight classifications been built up?

24. What is the mixing privilege? What are the regulations governing mixing?

25. How have the regulations governing the "mixing privilege" affected western Canada as compared with the effect in eastern Canada?

26. What factors influence classifications?

27. How does value influence classification?

28. Discuss bulk and weight as they affect classification.

29. How does the risk of carriage affect classifications?

30. Of what importance are facilities and equipment required in making classifications.

31. What are the regulations governing charges in the Canadian freight classification?

32. How is false classification punished?

CHAPTER III

33. Is the freight traffic on Canadian railroads greater than the passenger traffic? How has this influenced the growth of the Canadian railroads?

34. Why are railway rates of especial interest in Canada?

35. Compare the opinions of Leland Stanford and J. J. Hill on the influence of competition upon rates.

36. Wherein does the business of the railroad differ from the manufacturing or mercantile business?

37. What objections are there to paralleling of lines?

38. What were the conditions in the West Shore case?

39. On what are the arguments for flat rates based?

40. What is the equal mileage theory? Discuss it.

41. Can rates be based on capitalization? Why?

42. Discuss physical valuation as a rate basis. How do you think it would affect rates?

43. Why is the cost of service difficult to use as a basis in rate-making?

44. What is cost of service?

45. Discuss the "What the traffic will bear" policy of rate-making.

46. Can this policy be applied profitably in other lines of business?

47. Use a newspaper as an illustration of this policy.

48. Do you agree that "rates are based on competition, comparison, and compromise"? Why?

49. What is the test of the reasonableness of a rate?

CHAPTER IV

50. What is a commodity rate? Under what conditions is it granted? What is the German practice in this connection? What are class rates?

51. Compare the average carload in the United States and Canada with the average carload in Germany and England.

52. What two component factors enter into the rate? Itemize the headings under each factor.

53. What is "grouping"? How does it affect rates? Give examples of "grouping." What are percentage groups? Illustrate.

54. What road sets the rate among competing lines? Under what circumstances does the longest route set the rate?

55. What is a differential rate? Illustrate by the Canadian Pacific differential rate.

56. How does water competition influence rates? Illustrate.

57. Why does changing the center of population or industry affect rates?

58. How do the ports affect rates?

59. Should the rate regulative tribunal change rates so that all industries may compete on an even keel?

60. Does net profit of operation influence improvements in roadbed and rolling stock? Name some of the improvements made.

CHAPTER V

61. How are freight tariffs classed under the Railway Act?

62. What regulations govern the standard tariff? Give examples of the standard freight tariffs on the Canadian Pacific.

63. What regulations govern special and competitive rates?

64. How are the transcontinental rates fixed?

65. What are distributive rates? Why are they made?

66. Discuss the International Rate case. What were the results of the decision in that case?

67. How are rates fixed in eastern Canada? What are "town tariffs"?

68. What is the "traders" tariff arrangement? Explain its effects.

69. What principle applies in making export rates?

70. Why is a low import rate justified?

71. What factors influence the rate problem in Canada?

72. How do import rate anomalies arise?

73. Explain the attitude of the railways.

74. Discuss the manufacturing in transit arrangements and their effect on industry.

75. What is the practical result of being able to change the desti ation of a shipment while it is in transit?

76. What are concentration rates? What is the advantage of concentration rates?

77. What special rate reductions are sometimes made?

78. Trace the history of cartage service by the Canadian railroads down to the present time.

CHAPTER VI

79. Why are some of the factors which influence freight rates negligible in affecting passenger rates?

80. How does distance affect the passage rate?

81. Why are excess fares necessary if the railway is to operate the high speed trains profitably?

82. Is the terminal charge per unit less in the case of passenger traffic than in the case of freight traffic?

83. Why is it simpler to apply the equal mileage theory to passenger rates than to freight rates? To what extent is the tapering rate theory applied to passenger rates? Is the empty car movement important in passenger traffic?

84. To what extent would you regard the passenger department as essential in gaining business for the freight department?

85. What is the proportion of passenger receipts t freight receipts?

86. What is an index of increasing business?

87. What is the effect of economic depression on pas senger business? On freight business?

88. Is maximum loading possible in passenger busi ness?

89. Why is "dead weight" greater in passenger busi ness than in freight business? What effect has this o the cost of passenger business?

90. How are passenger rates classified in Canada What can the railroad do in the way of making specia rates?

91. What are the standard rates now in effect in Can ada?

92. Describe the ticket regulations of the Canadia Pacific.

93. Under what conditions is sleeping car service fur nished?

94. Why has classification in passenger rates not pro ceeded on the Canadian railroads as it has on the Euro pean roads? Name some of the rates in effect.

95. Describe passenger classifications in Europe What is the zone system of fixing rates?

96. Compare railway traffic here with that of Eu rope.

CHAPTER VII

97. What are the common law obligations of the rail ways?

98. Describe the bill of lading and its conditions.

99. What are the limitations of the railroad's liabil ity?

100. Is insurance recoverable by the railroad if it pays for the damage done?

101. What is the extent of the railroad's liability as a warehouseman?

102. How is the loss or damage computed? How and when should the claim be made.

103. If the freight charges are not paid how does the railroad get its money?

104. What are the forms of the bill of lading?

105. What does "due diligence" mean?

106. What is the actual car movement? Do you think there is room for improvement in this respect?

107. What is demurrage? What are demurrage charges?

108. What are the causes of demurrage?

109. What is the relation between demurrage and car shortage?

110. Who is to blame for the car shortage?

111. Would higher demurrage charges remedy the situation?

112. What is the "average demurrage" plan? What are its advantages?

113. Discuss reciprocal demurrage? What are the arguments for and against it?

114. What are the advantages of a car pool? What is the per diem charge?

115. What are the provisions of the order relating to inter-switching?

116. Discuss the work of the claims department. How can the claims department help the road's business?

CHAPTER VIII

117. What is express service? Discuss its scope.

118. Who was William Herndon? What was his connection with express service? Describe the early history of the modern express companies in the United States.

119. How did the express companies develop in Canada? What is the difference between the Canadian and American companies?

120. What is the arrangement between the express companies and the railroads?

121. Are there express classifications similar to the freight classifications? Discuss them.

122. What factors are considered in making freight classifications?

123. What are the express company's limitations as to liability?

124. What are the standard mileage tariffs?

125. Are differences in traffic conditions allowed to influence rates? Why?

126. How many standard tariffs are there? How are they built up?

127. What are local and transfer tariffs? How are the local tariffs quoted? How are the transfer tariffs made?

128. Are the factors affecting express rates analogous to those influencing passenger rates or freight rates? Discuss them.

129. May the express rate be expressed as a multiple of the first class freight rate?

130. How are commodity rates put in force? What influence have the commodity rates on the rates to intermediate points?

131. What is the graduate table? How is the rate for any given weight found in the graduate table?

132. Are the graduate table rates built up on a scientific basis? Why?

133. What is the "single" graduate? What is its effect?

CHAPTER IX

134. To what extent does water transportation regulate freight rates? What affects the efficiency of inland water transportation?

135. How do shallow rivers affect the efficiency of waterways?

136. Why may the location of a canal terminal make it unprofitable to use the canal?

137. What is the relation of highway costs to other costs of transportation?

138. Describe the Canadian lock and canal route.

139. Describe the Georgian Bay Canal route. Compare it to other routes. What are its possibilities?

140. What is the importance of the Ottawa Canal system?

141. How are the canal charges paid?

142. Compare the traffic passing through the Sault Ste. Marie Canals with that handled by the Suez Canal.

143. What percentage of the total Upper Lakes traffic is handled through the "Soo" Canal?

144. What is the character of the freight carried on the Lakes?

145. What percentage of Canadian wheat is carried on the Lakes?

146. How has the specialized character of the traffic

influenced the type of boats which ply on the Great Lakes?

147. Examine the formation of the Canada Transportation Lines.

148. Compare the boats of to-day with those which plied on the Great Lakes in the sixties.

149. What facilities are there for loading and unloading the grain ships?

150. Why are vessels built for combined inland and ocean traffic unprofitable?

151. Compare railway rates with lake rates. Why is there a disparity between the Canadian and American lake ton mile rate.

152. Why is the average load of United States traffic to Buffalo low?

CHAPTER X

153. With what countries does Canada do most of her foreign business? What per cent of the total exports are manufactured products?

154. What articles form the bulk of the imports and exports between Great Britain and Canada?

155. Canada and the United States?

156. Canada and France?

157. Canada and the Central American countries?

158. What percentage of Canadian imports and exports enter into ocean traffic?

159. What is the reason for the difference in movement of ballast? Why must ballast be provided?

160. Name the principal ports for imports and exports and the percentage of each handled at each port.

161. Summarize the situation at Montreal.

162. Why is so large a part of Canadian grain moved by American channels to American ports?

163. How does insurance affect the St. Lawrence route? Why?

164. What steamship lines are most heavily subsidized? How are the subsidy contracts administered?

165. What are the two main classes of ocean vessels? What is a "tramp" steamer? Describe a possible voyage for a tramp sailing from Montreal.

166. What is a charter party? What are the terms of the Anglo-American Cotton charter party?

167. How are ocean freight rates fixed? How may the vessel be measured?

168. Distinguish ocean traffic from railway traffic.

169. What is the effect of harvests on ocean rates?

170. Name the conditions of water carriage. How do they differ from the conditions of railway carriage?

171. How do the ocean rates affect Canada? What is meant by "spread"?

172. Have lumber rates increased recently?

173. What is the attitude of the carriers towards the rates on wheat and flour?

174. Sum up the ocean rate situation in Canada, bearing in mind the rate "conference."

175. What is the weak link in Canada's transportation system?

176. What are the prospects of the Hudson Bay Railway?

177. Discuss the possibilities of the Pacific route.

178. Summarize the changes in trade routes affected by the opening of the Panama Canal. What are the possibilities of the Tehuantepec route? Compare it with the Panama route.

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